Nova Scotia

REPORT OF THE

AUDITOR GENERAL

2000 HIGHLIGHTS

101-02900/

REPORT OF THE AUDITOR GENERAL 2000 HIGHLIGHTS

PREFACE

In an attempt to give readers an appreciation of the most significant findings contained in my Annual Report, I publish annually this highlights volume. It provides a brief summary of the results of audit work carried out in 2000.

However I do suggest that those who wish a fuller understanding of any or all of these matters should refer to the full Report. The highlights volume notes the page numbers of the full Report for each of the subjects.

The year 2000 was very busy for the Office. Carrying out the audit of the Province's financial statements for the second time was complicated by the government's efforts to fully implement generally accepted accounting principles. This resulted in delays and required additional resources. As well several complex and difficult audits caused delays. As a result this Report is later than originally planned.

It is also the intent of myself and my staff to provide our messages as clearly and concisely as possible. Comments from readers on the value of this highlights volume or on the complete report would be welcomed.

E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
January 19, 2001

TABLE OF CONTENTS

Page

INTRODUCTION

1. Overview and Significant Issues 5

GOVERNMENT-WIDE ISSUES

2. Accountability Information and Reporting . 5
3. User Fees 6

DEPARTMENTAL AUDITS

Community Services

4. Grants to Organizations Providing Family and Children's Services 7

Education

5. Halifax Regional School Board and Chignecto-Central Regional School Board - Budgeting and Financial Management Practices 8
6. Grants to Universities 10

Health

7. Cape Breton Healthcare Complex 11
8. Emergency Health Services 14
9. Physician Alternative Funding Initiatives .. 16

Housing and Municipal Affairs

10. Land Information Services 18

CROWN AGENCIES AND CORPORATIONS

11. Nova Scotia Liquor Commission 19
12. Nova Scotia Liquor Commission - Government Review of Alternative Service Options 19
13. Review of Financial Statements and Management Letters 20

OTHER AUDIT OBSERVATIONS

14. Additional Appropriations 20
15. Cash and Other Losses 20

OVERVIEW AND SIGNIFICANT ISSUES
(Pages 8 - 11)

1.1 In this Chapter, I attempt to provide my thoughts on what I believe is the major issue facing this Province - achieving fiscal stability - and bring together the findings of the audits carried out this year. These findings highlight the issues which must be addressed in order to work towards the objective of fiscal stability in an orderly manner, and reinforce and confirm the recommendations made by the Fiscal Management Task Force one year ago.

ACCOUNTABILITY INFORMATION AND REPORTING *(Pages 14 - 32)*

2.1 As a result of amendments to the Provincial Finance Act in June 2000, the provision of accountability information and reporting to the House of Assembly on government's plans and performance is now required by law. Performance information or reports provided by government should be relevant, reliable and understandable.

2.2 The Auditor General's report required under Section 9B of the Auditor General Act, on the 2000-2001 revenue estimates, was tabled in the House on April 11, 2000. In addition, summary comments and suggestions as a result of our review procedures were communicated to the Department of Finance.

2.3 The government's March 31, 2000 consolidated financial statements were released December 14, 2000 as part of the Public Accounts - Volume I. The auditor's report dated November 30, 2000 on the consolidated financial statements was qualified for a scope limitation due to the fact that the audited financial statements of Sydney Steel Corporation and the related pension plans for the year ended December 31, 1999, and the actuarial valuation reports on the pension plans, had not been finalized.

2.4 A review of the Province's March 31, 2000 consolidated financial statements indicates that in total there are approximately $30 billion of treasury and pension-related accounts or balances to be managed

and controlled by government. The House could direct additional attention towards holding the government accountable for its longer-term plans and performance in these areas.

2.5 The Procurement Branch of the Department of Finance (now part of the Department of Transportation and Public Works) reported on policy exceptions and the results of its monitoring of compliance with the government's procurement policies to the Priorities and Planning Committee. There was no requirement for the Priorities and Planning Committee to report to the House of Assembly. Accountability would be enhanced if a report on procurement policy exceptions was provided to the House of Assembly on a timely basis.

2.6 As part of efforts to modernize the Government of Nova Scotia's Management Manuals, applicability to Provincial public sector entities other than departments should be clarified.

2.7 Disclosure of compensation arrangements for executive and senior management positions in all Provincial public sector entities should, as a minimum, meet the requirements that publicly-traded corporations have had to comply with for many years.

USER FEES *(Pages 33 - 52)*

3.1 There are no government-wide policies, procedures or practices to ensure consistent and fair application of user fees.

3.2 No comprehensive information on significant user fee programs is presented to the Legislature, either by individual departments or on a government-wide basis.

3.3 Government indicated that it would implement the 36 policies recommended in the 1997 Licences, Permits and Approvals Task Force report, but no significant progress has been made on the financial aspects of the recommendations.

3.4 The Task Force report and recommended policies do not extend to approximately 300 Provincial agencies, boards and commissions, and there are no estimates of the numbers of user fees or total revenues associated with these entities.

3.5 Departments have not reviewed all government programs where user fees are charged and, due to the Eurig Estate court decision, may be putting sources of government revenues at risk of court challenge.

3.6 User fees for most hospital-based health care services are not based on actual costs because management information systems cannot provide the information needed to determine costs.

3.7 There is no apparent rationale for fees charged by the Registry of Deeds or for personal property registration.

3.8 It has been approximately thirteen years since government last completed an external review of its method of calculating fees charged to companies which harvest trees from Crown lands.

COMMUNITY SERVICES

GRANTS TO ORGANIZATIONS PROVIDING FAMILY AND CHILDREN'S SERVICES *(Pages 54 - 67)*

4.1 The Family and Children's Services Division provides grants and assistance to non-government organizations which are eligible to receive assistance. Grants are appropriately supported and approved.

4.2 Systems and controls are sufficient to ensure organizations receiving grants under legislated programs use the funds appropriately to address the goals, priorities and legislative requirements of the Department. However, weaknesses exist with respect to non-legislated grant programs.

4.3 Improvements could be made with respect to performance reporting by all family and children's service organizations funded.

4.4 The Family and Children's Services Division has not used the Department's business plan to prepare a more detailed operational plan to guide the Division in the planning and delivery of its programs and services.

4.5 The Division does not have a formal strategy or model to determine the level of funding for organizations providing services under non-legislated programs. The Division does not use a formula for funding residential child-caring facilities, but funding decisions are somewhat more structured than with non-legislated programs.

4.6 Except for a draft document related to grants to family and children's services agencies, there is no formal documentation of the respective roles and responsibilities of the Division, regional offices and funded organizations for each grant program.

4.7 The Department's inspection and licensing processes are timely and comprehensive. Appropriate and timely follow-up is undertaken to ensure deficiencies observed are corrected. Program reviews are comprehensive and appropriately followed-up, but we believe they should be done on a more frequent basis and more funded organizations should be included in those subject to review.

4.8 We observed that there are various financial and statistical reports generated for the individual grant programs managed by the Department, but there are few outcome measures established and reported.

EDUCATION

HALIFAX REGIONAL SCHOOL BOARD AND CHIGNECTO-CENTRAL REGIONAL SCHOOL BOARD - BUDGETING AND FINANCIAL MANAGEMENT PRACTICES

(Pages 68 - 95)

5.1 The timing of funding announcements is more critical for Regional School Boards than other public sector entities. If teaching positions need to be reduced, Boards have only a small window of opportunity to do this. Collective agreements require

notice of termination of probationary teaching staff, effective July 31, to be given by late April. In addition, any savings from reductions in the number of teachers are not able to be achieved until the end of the school year in July, four months into the fiscal year. If the Province informed Regional School Boards of probable funding for the next several years, through multi-year funding announcements, these organizations could better plan for the future.

5.2 Both Chignecto-Central Regional School Board and Halifax Regional School Board have elements of a business plan but neither Board has developed a formal plan. Additionally, the Department of Education has not defined the format of strategic and business plans for Regional School Boards. We recommended that the Department of Education work with Regional School Boards to establish the format for strategic and business plans. Chignecto-Central and Halifax Regional School Boards could then work towards developing formal strategic and business plans as required by legislation.

5.3 One of our objectives was to provide an overall opinion on the reasonableness of the Regional School Board budgets.

5.4 For Chignecto-Central Regional School Board, we were able to provide an unqualified audit opinion on the budget process and the budget document. We found that, as at the date of Board approval, the 2000-01 budget assumptions used by Chignecto-Central Regional School Board are suitably supported, consistent with the plans of the Board, provide a reasonable basis for the budget, and are fairly reflected in the budget.

5.5 In the case of Halifax Regional School Board, however, we encountered an audit scope limitation because certain critical pieces of information were not available. We, therefore, were unable to give an overall opinion on the budget process and the budget document. We are unable to provide an opinion on the process because budget assumptions such as enrolment projections and targeted class sizes were not explicitly documented as part of the budget process and approved

by the Board, and certain supporting budget documentation was not retained.

5.6 We became aware of one instance where the members of HRSB were given inadequate information upon which to base a budget-related decision. We have recommended that Board members be given information which explicitly considers both revenues and expenses when profit centres are being discussed.

GRANTS TO UNIVERSITIES
(Pages 96 - 112)

6.1 The introduction of a new Provincial funding formula for universities has been a positive development over the past few years. The major benefit of the formula is that it has rationalized the allocation of Provincial funds among the universities.

6.2 In 1996, when we last reported on universities, there were certain initiatives in progress which appeared to hold promise for improving the accountability and value-for-money of expenditures in the university sector. They included the potential cost savings identified in the Business Plan for the Metro Halifax Universities, studies on performance indicators and comparable financial information, and work on quality assurance. The Maritime Provinces Higher Education Commission and the universities have made some progress in the quality assurance area, but there has been little progress on the other initiatives.

6.3 The accountability relationship between the Nova Scotia Council on Higher Education and universities was not well defined. In August 2000, the Nova Scotia Council on Higher Education was replaced by the Nova Scotia Advisory Board on Colleges and Universities. We recommended that the Nova Scotia Advisory Board on Colleges and Universities work in conjunction with the universities to develop an accountability framework that includes descriptions of roles and responsibilities, objectives, outcome and performance measures and a reporting framework. An accountability framework would help ensure that the Province obtains maximum value from its expenditure on universities.

6.4 The university funding formula is based on enrolment figures. We reviewed documentation of the Nova Scotia Council on Higher Education's audits of university enrolment submissions and found deficiencies in the audit work performed. In addition, our review of the calculation of the unrestricted operating grants for three universities indicated that the Council had incomplete documentation to support the history of the grant calculation.

6.5 Recent studies have suggested that Nova Scotia's university infrastructure requires a large investment of funds to address the universities' capital needs and deferred maintenance backlog. Capital funding provided to the universities has been inadequate to meet the identified needs. In light of the seriousness of this problem, it is important that funding be targeted to projects that provide the most value.

6.6 The university capital projects funded by the Province over the past few years have all been ranked as the highest priority based on a comprehensive set of criteria used by the Maritime Provinces Higher Education Commission. The amount of capital funding has been insufficient to meet the total needs identified by the university community. The Nova Scotia Council on Higher Education had taken over responsibility from the Maritime Provinces Higher Education Commission for the capital grants process. The Advisory Board will continue in this role and will be developing its own criteria to evaluate such requests.

6.7 Due to the significance of regional funding recoveries from the other Maritime provinces, the Nova Scotia Advisory Board on Colleges and Universities should ensure more rigorous monitoring of the accuracy and completeness of recoveries received through the Maritime Provinces Higher Education Commission.

HEALTH

CAPE BRETON HEALTHCARE COMPLEX
(Pages 113 - 136)

7.1 The Cape Breton Healthcare Complex Board

members performed their governance function well. The Board approved deficit budgets but this was a systemic problem, due largely to the Department of Health's directives to maintain services and not reduce staff. The Department of Health subsequently funded these deficits. The new Health Authorities Act limits the ability of the District Health Authorities to approve deficit budgets.

7.2 The Complex prepares an annual report. We recommended improvements in content including more detail on objectives and related achievement, and inclusion of the audited financial statements. The new Health Authorities Act includes provisions which, if implemented, will meet our recommendations.

7.3 The Complex has been a leader in soliciting performance information from other facilities, and using that information to measure its own performance. The Complex established a benchmarking process in collaboration with a number of hospitals throughout Canada. We commend the Complex's efforts in benchmarking and believe this is a useful tool that the Department of Health and the District Health Authorities should use to measure and improve performance in many important areas.

7.4 Many in the Canadian health sector have commented that good information systems are the key to solving the fiscal and other problems in health care. The Cape Breton Healthcare Complex, and a number of other partners in health, submitted a proposal to the Department of Health for a new Health Information System more than two years ago, as part of a strategic information technology plan. To date, no response has been received from the Department. More timely collaboration between the Department and its partners in information technology strategic planning is required.

7.5 The Cape Breton Healthcare Complex monitors inappropriate bed use and reports results to the Board. These reports routinely show that more than 25% of patients occupying acute care beds at the Complex could be more appropriately treated in another setting. This data is consistent with Province-wide figures reported by the Department of Health. Inappropriate bed use is a significant problem, but it cannot be remedied by the Complex acting alone. The Department of Health, Cape Breton Healthcare Complex, and other long-term and acute care providers will need to work together to achieve a solution, and implementation of the recommendations in the Department of Health's recently released *Transitions in Care - Nova Scotia Department of Health Facilities Review* is a first step in that process.

7.6 The financial monitoring process in place at the Complex is appropriate, although there is a need to improve the forecasting process. Management identified the need for better forecasting and we concur.

7.7 The Complex has recently established a Clinical Financial Advisory Committee to identify opportunities for improvement in the economy and efficiency of all clinical activities. The Committee has established a list of potential areas to be reviewed and has selected its first topic. Recommendations are forthcoming. We support this endeavour and recommend that the initiative be monitored by establishing annual targets and reporting on its performance.

7.8 The procurement function is well managed and complies with Provincial procurement policies and the Atlantic Procurement Policy. The Complex has established relationships with a number of buying groups in an effort to reduce costs through volume discounts. We support involvement in initiatives such as these, and recommend that the Complex monitor and report savings achieved.

7.9 Rates charged by the Complex to uninsured patients are not based on cost of the actual services provided to the patient, but rather on an average per diem cost, so the rates may not reflect the actual cost incurred. We recommend that the Complex and the Department of Health work towards developing an approach which results in recovery of full costs from all services for which the Complex is able to charge fees.

EMERGENCY HEALTH SERVICES
(Pages 137 - 158)

8.1 There is no legislation for the provision of emergency health services. It is important that Emergency Health Services Nova Scotia (EHSNS) have explicit legislative authority to impose user fees, training, licencing, medical standards and other matters. In 1994, legislation was assented to but not proclaimed. We have recommended that legislation and regulations governing the activities of EHSNS, containing appropriate accountability provisions, be developed and enacted as soon as possible.

8.2 EHSNS developed a strategic and operating plan in 1996 which includes the vision, mission, values, strategic goals, operating plans and specific initiatives planned for the next five years. The current operating plan covers the five-year period ending March 31, 2003. We found the strategic and operational planning to be thoughtful and comprehensive. The plan was last revised in February 1999 and should be updated in the near future. We have recommended that EHSNS report performance in accomplishing planned objectives to the House annually.

8.3 The Branch has a formal, written contract evaluation process in place for the air medical transport program. We note that similar contract evaluation processes are not in place for the ground ambulance and communications and dispatch centre contracts. We have recommended that plans for periodic written contractor evaluations for the ground ambulance and communications and dispatch centre be developed as soon as possible.

8.4 The ambulance lease agreement requires ambulances to undergo regular preventive minor and major maintenance. We examined the maintenance records for 10 ambulances consisting of 148 minor and 19 major maintenance reports. We found that minor and major preventive maintenance was not always being performed within the kilometre limits specified in the lease agreement. Failure to perform preventive maintenance when required may lead to a reduction in rebates at the end of the lease term. At the time of our audit, there were outstanding disagreements with the contractor over the condition of 47 of 90 returned ambulances which eventually resulted in the loss of $562,000 in rebates. The Department and Emergency Medical Care Inc. (the ground ambulance service provider) had not established which entity would be responsible for the lost rebates. Department management has informed us that controls have been established to prevent the loss of rebates in the future.

8.5 Emergency Medical Care Inc. was selected as the preferred contractor for ground ambulance services on a sole-sourced basis. We were informed by Department staff that a public request for proposals was not issued because the Department lacked financial and operational data upon which to base a request. The reason for accepting Emergency Medical Care Inc. as the preferred operator was strongly influenced by Executive Council's preference for a Nova Scotia based operator. There does not appear to be a written evaluation of Emergency Medical Care Inc. as a suitable candidate for a Province-wide ground ambulance operator against predetermined evaluation criteria notwithstanding that it was a new company and neither it nor the parent company (Maritime Medical Care Inc.) had any previous experience in the ambulance business. There also does not appear to have been an analysis of the costs and benefits associated with alternative service delivery by a non-profit or government agency.

8.6 Contractor compliance with the terms of the ground ambulance contract is controlled through a system of performance requirements, incentives and penalties. The most significant of these are ambulance response times and paramedic qualifications. The reporting of monthly performance indicators by Emergency Medical Care Inc. to measure contractor compliance with response time performance was under development at the time of our audit. The ground ambulance contract also calls for penalties, commencing in the 2000-01 fiscal year, for certain performance failures. A system for capturing and reporting performance failures had not been fully developed at the time of our audit.

8.7 Prior to 1995, ambulance services were provided by private sector operators in approximately 54

geographic regions in Nova Scotia. To facilitate the transfer to a single operator, 34 existing ambulance operations were purchased at a cost of $14.3 million. Our review of this transaction revealed significant deficiencies in documentation and accountability. As a result, we were not able to reach a conclusion on whether these transactions were carried out with due regard for economy.

8.8 We found a lack of clear direction from EHSNS to Emergency Medical Care Inc. identifying situations where the contractor is required to comply with Provincial procurement policy and we have recommended that such direction be documented.

8.9 User fees are charged for ground ambulance and air medical transports. There is no legislative authority governing the levy of these user fees. We found the process for establishing ground ambulance and inter-provincial billing rates for air medical transport to be well researched and documented. Although rates charged are not always based on the full cost of services provided to users of the system, there is a documented rationale for the rates used.

PHYSICIAN ALTERNATIVE FUNDING INITIATIVES
(Pages 159 - 171)

9.1 Other reports commissioned by the Department of Health have recommended alternative physician funding in addition to the traditional fee-for-service payment system. The Department of Health and the Medical Society of Nova Scotia have negotiated a Principles document for negotiating alternative funding initiatives. This is an important first step in ensuring consistency of alternative funding initiatives with the objectives and priorities of the Department.

9.2 A principle of the alternative funding contract system is that "*payments should typically draw no more resources from the Medical Services Insurance (MSI) budget/allocation than was historically drawn by fee for service....*" The evidence we examined indicates that, on average, alternative funding contracts cost more than historical fee-for-service remuneration.

9.3 When investigating an alternative funding proposal, the Department does not prepare a summary document which clearly sets out specific outcomes. In addition, the estimated cost of the alternative funding proposal is not compared to a fee-for-service alternative which takes into account projected future utilization. Such a document, which clearly articulates relative alternative funding costs and benefits, is important to ensure accountability for program results. We recommended that such a document be prepared.

9.4 The Department's authorization process for alternative funding contracts appears to be operating appropriately.

9.5 We found weaknesses in the control system for alternative funding payments, administered by Maritime Medical Care Inc., to reduce the risk of inaccurate data input and duplicate payments. We have recommended increased monitoring to reduce the risk of data input errors and overpayments.

9.6 Evaluation of the effectiveness of alternative funding initiatives depends on data collection through the shadow billing system. This system also supports billings to other provinces for services provided to non-Nova Scotia residents. We found that controls to ensure the completeness of shadow billing submissions are not adequate, particularly for medical specialists. Monitoring of the completeness of shadow billing information is now being performed on an ad hoc and infrequent basis. We note that the Department and Maritime Medical Care Inc. are developing a quarterly reporting system which should help to address this deficiency.

9.7 Both the 1997 contract with the Medical Society of Nova Scotia and the individual alternative funding agreements call for contract evaluations. The Department has established an Evaluation Steering Committee with the Medical Society of Nova Scotia and Terms of Reference to guide the evaluation process. We have recommended more frequent evaluations and changes to the scope of evaluations.

9.8 Individual alternative funding contracts permit the Department to decrease payments after 90 days if

actual service levels are less than the contract payments. However, this provision is very difficult to implement because of the manner in which the contracts are structured. We have recommended that these provisions be strengthened and enforced.

HOUSING AND MUNICIPAL AFFAIRS

LAND INFORMATION SERVICES *(Pages 172 - 184)*

10.1 The strategic planning process within the Land Information Services Division has been performed adequately, although we have recommended improvements in resource planning and monitoring. Plans are currently underway for a major restructuring of the way the Registry of Deeds conducts business and meetings have been ongoing with stakeholders throughout government and private industry.

10.2 The performance measurement and reporting system within the Land Information Services Division could be improved if regular reports of Divisional performance were prepared for stakeholders.

10.3 The Division should prepare rationales for the fees charged for registering real property and personal property transactions.

10.4 Overall, the procurement function for the Land Information Services Division has been well managed. The Division adheres to the Provincial Procurement Policy and the Atlantic Procurement Policy.

10.5 The Personal Property Registry operating agreement provides for the Province's right to audit accounts maintained by the private partner. To date, there have been no audits and we recommended that such audits be conducted.

10.6 Overall, we found controls over the computer environment and application for the Deeds On-line Registration and Information System to be satisfactory.

CROWN AGENCIES AND CORPORATIONS

NOVA SCOTIA LIQUOR COMMISSION *(Pages 186 - 206)*

11.1 The Board of the Commission performs its governance responsibility reasonably well.

11.2 The number of Commissioners should be expanded beyond the maximum of three allowed by the Liquor Control Act in order to increase the effectiveness of the governance function.

11.3 No formal performance evaluation is prepared for any member of senior management.

11.4 The annual report lacks substantive information on the performance of the Commission, and thus does not fulfill its potential as an accountability document.

11.5 The Liquor Control Act is out-dated in areas and is in need of significant review.

11.6 The Commission is complying with key provisions of its enacting legislation and regulations, but should give more attention to its regulatory responsibilities in its key planning and accountability documents.

11.7 The Commission is giving due regard to economy and efficiency in the planning, management and monitoring of its operations.

11.8 The scope of internal audit activity should be broadened and changes should be made to enhance the independence of the internal audit function.

NOVA SCOTIA LIQUOR COMMISSION - GOVERNMENT REVIEW OF ALTERNATIVE SERVICE OPTIONS *(Pages 207 - 213)*

12.1 This Chapter provides a description of the government's review of its role in the sale and regulation of alcoholic beverages including the goals, nature and outcomes of the review. This review was

carried out subsequent to the conduct of our audit of the Nova Scotia Liquor Commission described in Chapter 11 (pages 186 - 206).

REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS *(Pages 214 - 217)*

13.1 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those crown corporations and agencies audited by the private sector. This section of our Report contains comments on our review of the results of private sector audits, as well as comments on audits performed by this Office.

OTHER AUDIT OBSERVATIONS

ADDITIONAL APPROPRIATIONS *(Pages 220 - 222)*

14.1 Included in expenditures in the financial statements for the year ended March 31, 2000 are additional appropriations totalling $639 million. As at January 31, 2001 none of these had been approved by Order in Council or by the Legislature. This raises a question of effective legislative control of the public purse. This issue will be the subject of ongoing review by my Office.

CASH AND OTHER LOSSES *(Pages 223 - 225)*

15.1 The losses reported to us for the year ended March 31, 2000 totaled $578,187; consisting of cash losses of $46,412, property losses estimated at $750,065 and recoveries of $218,290.

15.2 Not all departments and crown agencies comply, on a timely basis, with the loss reporting requirements of the Management Manual.

Nova Scotia

REPORT OF THE

AUDITOR GENERAL

2000

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2000

Honourable Murray Scott
Speaker
House of Assembly

Sir:

I have the honour to submit herewith my Report to the House of Assembly for the year ended March 31, 2000, to be laid before the House in accordance with Section 9A(2) of the Auditor General Act.

Respectfully submitted

E. Roy Salmon, F.C.A.
Auditor General

Halifax, Nova Scotia
January 19, 2001

TABLE OF CONTENTS

Page

Introduction

1. Overview and Significant Issues 8

Government-Wide Issues

2. Accountability Information and Reporting 14
   Response from Human Resources 31
3. User Fees 33
   Response from Natural Resources 51

Departmental Audits

Community Services

4. Grants to Organizations Providing Family and Children's Services . 54

Education

5. Halifax Regional School Board and Chignecto-Central Regional School Board - Budgeting and Financial Management Practices 68
   Response from Chignecto-Central Regional School Board 92
   Response from Halifax Regional School Board 92
   Response from Education 95
6. Grants to Universities 96

Health

7. Cape Breton Healthcare Complex 113
8. Emergency Health Services 137
9. Physician Alternative Funding Initiatives 159

Housing and Municipal Affairs

10. Land Information Services 172

Crown Agencies and Corporations

11. Nova Scotia Liquor Commission 186
    Response from Nova Scotia Liquor Commission 205
12. Nova Scotia Liquor Commission - Government Review of Alternative Service Options 207
13. Review of Financial Statements and Management Letters 214

Other Audit Observations

14. Additional Appropriations 220
15. Cash and Other Losses 223

Office of the Auditor General

16. Report on the Office of the Auditor General 228

Appendices

I Auditor General Act - Sections 8, 9, 15, 17 246
II Financial Statements 249

INTRODUCTION

1.

OVERVIEW AND SIGNIFICANT ISSUES

INTRODUCTION

1.1 This is my ninth report to the Legislature as Auditor General and it contains the results of the work carried out by my Office during the year 2000. Throughout my tenure I have attempted, and will continue, to assist members of the House of Assembly with their responsibility to hold the government to account for the management of public funds.

1.2 We adhere to the standards promulgated by the Canadian Institute of Chartered Accountants when we are performing our work. These are the professional standards applicable to assurance work performed by public accountants and legislative auditors. Chapter 16 of this Report provides a description of the Office's mandate, mission, goals, core business functions and organization. It also describes how we measure our performance and summarizes our achievements during the year.

1.3 As a result of amendments to the Auditor General Act in 1998, this Report is to be tabled by December 31. It was postponed this year due to delays in completing the financial statements of the Province which were not tabled until December 14, 2000 as well as by delays in completing one major audit which was significant to this year's Report.

1.4 In this Chapter, I attempt to provide my thoughts on what I believe is the major issue facing this Province - achieving fiscal stability - and bring together the findings of the audits carried out this year which highlight the issues which must be addressed in order to work towards that objective in an orderly manner. These findings confirm concerns I have expressed in previous Reports.

AUDIT MANDATE

1.5 In addition to requiring me to table this Annual Report, the Auditor General Act requires me to provide an opinion to the House of Assembly on the government's financial statements and to have that opinion included in the Public Accounts. My opinion was included in the Public Accounts which were tabled on December 14, 2000.

1.6 The Auditor General Act also requires me to review the estimates of revenue contained in the Budget Address of the Minister of Finance and to report to the House of Assembly on the reasonableness of the revenue estimates. That report was included in the April 11, 2000 *Budget Address*.

1.7 Although no additional reports were issued in 2000, the Auditor General Act does permit me to table two additional reports during a year.

DEALING WITH THE FISCAL CRISIS

1.8 In the summer and fall of 1999, the government recognized and stated that Nova Scotia had an immediate fiscal crisis and a long-term fiscal management problem. On October 20, 1999 the Premier announced the appointment of a special, independent task force to advise his government on ways to deal with these matters.

1.9 Voluntary Planning's Fiscal Management Task Force began its work immediately and I was pleased to serve as a Special Advisor to it.

1.10 The Task Force issued a preliminary report in December of 1999 and then engaged in extensive public consultation before issuing a final report in January 2000. The report dealt with both the immediate fiscal crisis as well as the longer-term structural and vision problems.

1.11 The final report contained 29 recommendations. I understand that the government accepted the majority of these and that action is underway to implement them. From a structural perspective many of those recommendations would help to deal with the issues identified in my Report but action is necessary if the overall problem is to be addressed.

THE CURRENT SITUATION

1.12 The Task Force Report expressed concern that with an estimated $200 million deficit for the year ended March 31, 2000, accumulated net debt of the Province would exceed $11 billion at that date. It recommended that a balanced budget be achieved by 2002-03.

1.13 The deficit for the year ended March 31, 2000 did exceed $200 million and the accumulated net debt on that date was $11.2 billion. Furthermore the budget for the year ended March 31, 2001 estimated a $268 million deficit for that year which would increase the accumulated net debt to $11.5 billion at March 31, 2001.

1.14 As net debt increases, the cost of servicing it increases, requiring the use of revenue to pay the interest and other debt costs. If revenues do not increase, either other program expenditures must be reduced or deficits will grow. Thus the problem of achieving the Task Force recommendation becomes more difficult.

THE FINANCIAL MANAGEMENT AND ACCOUNTABILITY FRAMEWORK

1.15 The Fiscal Management Task Force also made recommendations regarding the implementation of a fiscal decision making process. My previous reports have commented on deficiencies in systems, organizational structure and processes which are fundamental to establishing such a process. Several audits conducted this year and discussed in this Report illustrate these deficiencies and reinforce the Task Force recommendations. They demonstrate weaknesses in the processes to plan, assess, monitor and review how public money is spent. The following are illustrations of these deficiencies.

Community Services - Grants to Organizations providing Family and Children's Services

1.16 There are weaknesses in the administration of non-legislated grant programs including the absence of policies and procedures to determine eligibility and requirements for performance reporting. Thus it is unclear whether funds are spent wisely or for the purposes intended.

Education - Halifax Regional School Board and Chignecto-Central Regional School Board

1.17 The timing of funding announcements is critical for Regional School Boards because of the lead time required to reduce expenditures. In 2000 School Boards were informed of funding levels on April 11, after the fiscal year had commenced. This really is too late to take appropriate actions. This issue is broader and does impact on business and financial planning for all government entities. One solution is to advance the overall government budgeting process so that the Budget and Estimates are presented, debated and approved much earlier. Another solution is to establish funding targets (at least in general terms) on a multi-year basis.

Education - Grants to Universities

1.18 The introduction of a Provincial funding formula for universities has been a positive development. However, the absence of a clear vision, objectives and outcome measures for the university system makes it difficult to determine whether funding is achieving the appropriate objectives.

Health - Cape Breton Healthcare Complex

1.19 This audit illustrated certain problems facing all health care providers. A major issue is the provision of high cost acute care patient days to patients who could be treated effectively in an alternate facility. The need for state of the art information systems to facilitate decision making, particularly related to funding, is well known and will require a concerted effort by all those in the health sector.

Health - Emergency Health Services

1.20 The costs of emergency health services have increased from $13 million in 1994-95 to $53 million in 1999-2000 as a result of a major change in program delivery. In the absence of appropriate performance reporting and a defined accountability framework it is difficult to determine if this expenditure reduces costs in other parts of the health care system or whether value for money is achieved.

Health - Physician Alternative Funding Initiatives

1.21 Alternative funding initiatives were implemented as a means of improving the economy, efficiency, effectiveness and responsiveness of medical services provided by physicians. However the absence of an adequate information system causes difficulty in evaluating whether these arrangements are successful.

OTHER MATTERS

Treasury Management

1.22 As at March 31, 2000 there were approximately $30 billion of treasury related accounts to be managed by government. The House of Assembly should receive better information on the government's longer-term plans and performance related to the management of these accounts.

User Fees

1.23 User fees represent a significant source of revenue for the government and can be used to offset program costs. Weaknesses in policies, lack of comparison of rates with costs and inadequate reporting prevent appropriate decision making in relation to this revenue source.

CONCLUDING REMARKS

1.24 In this and in previous Reports I have commented on the progress that has been made in implementing an appropriate accountability framework in the government. But, as indicated by the findings of the Fiscal Management Task Force and the audits conducted by my Office, much remains to be done. In the absence of appropriate policies, systems and information, decision making is hampered in ensuring that scarce resources are appropriately expended and that the right decisions are made in attempting to balance the budget. I urge government to give high priority to addressing the recommendations of the Task Force as well as those in my Reports.

1.25 Once again I wish to acknowledge the cooperation afforded to myself and my staff by all those within government whom we audit and have contact with. Dealing with auditors is not always easy but the public service of Nova Scotia is professional and fair. I also wish to thank my staff for their efforts and support. It is very much appreciated.

GOVERNMENT-WIDE ISSUES

2.

ACCOUNTABILITY INFORMATION AND REPORTING

BACKGROUND

2.1 The need for quality accountability information and reporting on government's performance continues to be a topic of consideration in a number of jurisdictions. In its simplest terms, accountability means the obligation to answer for an assigned responsibility. An accountability relationship involves at least two parties, one who allocates or assigns responsibility, and one who accepts it, with an understanding to report upon results or outcomes.

2.2 Exhibit 2.1 on page 25 provides a relatively simple two-dimensional overview of the key elements of an accountability relationship, including the role the audit function serves within it. This overview or model can be used when considering accountability at various levels within Provincial operations. For example:

- government's accountability to the House of Assembly;
- departments' and Provincial public sector entities' accountability to government;
- deputy head's or board's accountability to a Minister; and
- management's accountability to a deputy head.

2.3 Exhibit 2.2 on page 25 provides an overview of the accountability organization with respect to the Provincial public sector. It is not intended to present all parties or relationships involved, but rather to emphasize the various levels that exist and that accountability to the public is relevant at all levels.

2.4 The purpose of this chapter is to provide updated summary comments on the quality of accountability information and reporting to the Members of the Legislative Assembly (MLAs), including the Province's financial statements. Adequate information and reporting on government's plans and performance (i.e., results or outcomes) are required, so MLAs can hold government to account.

RESULTS IN BRIEF

2.5 The following are our principal observations this year.

- As a result of amendments to the Provincial Finance Act in June 2000, the provision of accountability information and reporting to the House of Assembly on government's plans and performance are now required by law. Performance information or reports provided by government should be relevant, reliable and understandable.
- The Auditor General's Report, required under Section 9B of the Auditor General Act, on the 2000-01 revenue estimates was tabled in the House on April 11, 2000. In addition, summary comments and suggestions as a result of our review procedures were communicated to the Department of Finance.

- The government's March 31, 2000 consolidated financial statements were released December 14, 2000 as part of the Public Accounts - Volume I. The auditor's report dated November 30, 2000 on the consolidated financial statements was qualified for a scope limitation due to the fact that the audited financial statements of Sydney Steel Corporation and the related pension plans for the year ended December 31, 1999, and the actuarial valuation reports on the pension plans, had not been finalized.

- A review of the Province's March 31, 2000 consolidated financial statements indicates that in total there are approximately $30 billion of treasury and pension-related accounts or balances to be managed and controlled by government. The House could direct additional attention towards holding the government accountable for its longer-term plans and performance in these areas.

- The Procurement Branch of the Department of Finance (now part of the Department of Transportation and Public Works) reported on policy exceptions and the results of its monitoring of compliance with the government's procurement policies to the Priorities and Planning Committee. There was no requirement for the Priorities and Planning Committee to report to the House of Assembly. Accountability would be enhanced if a report on procurement policy exceptions was provided to the House of Assembly on a timely basis.

- As part of efforts to modernize the Government of Nova Scotia's Management Manuals, applicability to Provincial public sector entities other than departments should be clarified.

- Disclosure of compensation arrangements for executive and senior management positions in all Provincial public sector entities should, as a minimum, meet the requirements that publicly-traded corporations have had to comply with for many years.

SCOPE OF REVIEW

2.6 This assignment represents an ongoing monitoring, identification, review and consideration of various matters or issues relating to the status of action taken or planned by government to improve the quality of accountability information and reporting to the House of Assembly.

2.7 In addition to considering the status of accountability-related initiatives undertaken by government, we have reviewed and provided commentary on selected matters, including the Province's consolidated financial statements.

PRINCIPAL FINDINGS

2.8 Our principal findings and summary comments on general or specific matters relating to the quality of accountability information and reporting are presented under the following headings:

- Planning and Accountability Framework
- Revenue Estimates in Budget Address
- Province's Consolidated Financial Statements

- Treasury Management
- Other Matters

Planning and Accountability Framework

2.9 For the House of Assembly to hold government to account, and for government to hold departments and agencies accountable, there must be a standard framework in place. Such a standard has been defined in Nova Scotia.

2.10 The *Planning and Accountability Framework* is a government-wide initiative being coordinated through the Priorities and Planning Secretariat. The information and reporting documents prepared as a result of the framework provide an increased focus on outcomes at both the overall government and departmental or entity levels. The effective implementation and continued evolution of such information and reporting mechanisms represent a significant challenge, requiring a sustained commitment by government.

2.11 The *Planning and Accountability Framework* is intended to support the provision of improved information and reporting on the plans and performance of government, including at the department or entity level. As a result of June 2000 changes to the Provincial Finance Act, there is now a statutory requirement for such information and reporting to be provided by government. These changes make Nova Scotia one of the few jurisdictions that has a legal requirement for the provision of performance planning and reporting to legislators. Further, business plans of crown corporations are specifically required to be tabled in the House under the provisions of the Provincial Finance Act.

2.12 Reporting on performance, by governments, is a topic of some significance and debate in virtually all Canadian jurisdictions. In July 1999, the CCAF-FCVI (i.e., a Canadian research and educational foundation dedicated to building knowledge for meaningful accountability and effective governance, management and audit) as part of its Public Performance Reporting Program published *Principles for Building a Public Performance Report - A Discussion Paper from Canada's Legislative Audit Community*.

2.13 Among other things, the publication indicates that decision-makers, whether assessing results as part of an accountability review or considering the impact of alternative courses of action, require performance information or reports that are relevant, reliable, and understandable. Exhibit 2.3 on page 26 includes additional summary information extracted from that publication.

Revenue Estimates in Budget Address

2.14 Section 9B (1) of the Auditor General Act provides the Auditor General with the following mandate with regard to the government's annual revenue estimates.

> *"The Auditor General shall annually review the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates."*

2.15 We first exercised this mandate (previously provided for in section 65A of the Provincial Finance Act), which is unique within the Canadian legislative audit community, in 1994.

2.16 The Auditor General's Report on the 2000-01 revenue estimates was tabled in the House along with the supporting information for the April 11, 2000 *Budget Address*. Exhibit 2.4 on page 28 is a copy of the Auditor General's Report on the 2000-01 revenue estimates.

2.17 At the conclusion of our review of the 2000-01 revenue estimates, we provided a copy of the Auditor General's Report on the Revenue Estimates for *Budget Address* printing purposes, and we also forwarded a letter to the Minister of Finance. That letter dated April 10, 2000 provided the following summary observations on matters regarding the 2000-01 revenue estimates included in the April 11, 2000 *Budget Address*:

> *In addition to my report, I would like to draw your attention to the following considerations with respect to the 2000-2001 revenue estimates:*
>
> - *The 2000-2001 revenue estimates are, in my view, based on assumptions which include an increased level of conservatism, when compared with the level of conservatism observed in prior years. However, there was support for the assumptions used and we were able to determine that they were reflected in the preparation of the revenue estimates. In this regard, we have suggested the level of conservatism be disclosed in the Key Assumptions Outlook document or discussed in other supporting information.*
>
> *For example, related to the above the following matters are highlighted.*
>
> - *Assuming that the 1999-2000 forecast is accurate (yet to be audited), the rate of growth in provincial source revenue has dropped from 8.6% to 2.6%, including no growth in personal income tax revenue despite the assumed increases in personal income and employment.*
>
> - *The level of corporate tax credits used in the preparation of the estimate of corporate income tax revenue.*
>
> - *Until late last week, we had not been provided information supporting the impact of planned cuts that had been used in the preparation of the revenue estimates. It was indicated to us that the impact of the planned cuts were taken into account when establishing the assumptions. In this regard, we note that for revenue estimates purposes the planned cuts were applied to the entire year. There was no information available on the timing or implementation of the planned cuts.*
>
> - *In recent years the Province has received significant prior year adjustments (i.e., PYAs) through the various federal-provincial fiscal arrangements. It is our understanding that your staff used the most recent formal information from the Federal government - adjusted in certain instances for more current local conditions or considerations - in order to arrive at the estimates for 2000-2001 (as well as the forecast for 1999-2000, which is not specifically covered during our review). However, it must still be acknowledged that PYAs will most likely be identified during 2000-2001 for prior years and, with respect to the current year, in future years, and that they could be significant individually or collectively.*
>
> - *The processes and practices for the measurement, recognition and recording of revenue (i.e., for estimate and accounting purposes) flowing to the Province from or through the various federal-provincial arrangements or agreements are complex and not well understood outside of the responsible division of your Department. This is not only due to the nature of the arrangements or agreements themselves, but also that information and support received from the Federal government is adjusted by Nova Scotia Finance staff for more current or local considerations. It is our understanding, these adjustments do not affect the total revenue ultimately*

received from the Federal government, but only when the revenue is recognized in the Province's accounts. We suggest the processes and practices for recognition and recording of tax and other revenue transfers from the Federal government be reviewed, including consideration of the related accrual accounting practices in other provinces.

Province's Consolidated Financial Statements

2.18 The Members of the Legislative Assembly (and the public) require financial information on and reporting of the Province's financial position and results - both plans and performance - on a complete, understandable and timely basis.

2.19 In 1999, government made significant changes to the accounting policies and practices used to determine and report the Province's financial position and results of operations for a fiscal period.

2.20 For provincial governments in Canada, generally accepted accounting principles (GAAP) is represented by recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by CICA's other accounting standards or pronouncements.

2.21 Government's decision to move to GAAP as a basis of accounting was significant, and provided for the removal of a number of long-standing concerns relating to the completeness of the Province's financial reporting. Further, the use of GAAP provides an authoritative foundation or source from which government can both choose and defend its accounting policy and practice decisions.

2.22 The government's consolidated financial statements for the March 31, 2000 fiscal year were released December 14, 2000 along with the report of the Auditor General dated November 30, 2000. The auditor's report, which was qualified due to a scope limitation, is reproduced in Exhibit 2.5 on page 29.

2.23 With regard to the scope limitation we encountered, it should be noted that for purposes of finalizing the government's March 31, 2000 consolidated financial statements, Finance utilized the unaudited information available to them relating to Sydney Steel Corporation and the related pension plans. We are not aware of any action or steps that Finance staff could have taken in order to resolve our scope limitation prior to the time the consolidated financial statements were released.

2.24 In our view, in order to be considered timely, the government's consolidated financial statements should be available for release no later than six months after year end. That would require draft statements and other year-end accounting support to be available for audit no later than approximately four months after year-end. Finance's government accounting staff and this Office have agreed to collaborate in identifying practical means to resolve known contributors to delays and to work towards more timely reporting.

2.25 During the course of our audit of the government's March 31, 2000 consolidated financial statements, various more detailed or specific findings and observations were noted. Due to the delays encountered in finalizing the year's audit, we will be preparing a separate document for discussion with Finance management in early 2001. The following overall summary comments or observations are provided at this time.

- The June 2000 changes to the *Provincial Finance Act* provide for more oversight and control by the Minister of Finance relating to financial management systems and activities of entities included in the government's reporting entity.

Implementation and communication strategies related to the above will be critical in order to optimize the coordination and exchange of information required to achieve effective control.

- The scope and mandate of Finance's controllership function as it relates to implementation of accounting policy decisions and reporting standards within the government's reporting entity need to be clearly defined and communicated.

- The preparation of year-end accounting support files by departments was more timely and thorough than in 1999. The audited financial statements and additional year-end supporting information requested from government service organizations and government business enterprises were for the most part more timely than in the past.

- There are certain accounting policy or statement presentation areas where further adjustment may be necessary in order to more fully comply with PSAB. However, such matters notwithstanding, in the absence of significant new pronouncements from PSAB or changes to generally accepted practice by sovereign governments in Canada, we would support a decision to maintain the current accounting policy and statement presentation regime for the next two to three years in order to provide reporting stability.

- The following are the more significant matters that PSAB is working on where new formal pronouncements or guidance could require accounting policy or statement presentation changes in the next few years:

  - employee future benefits;
  - foreign currency translation;
  - liabilities, commitments and contingencies;
  - reporting entity; and
  - reporting model.

- Completion of the March 31, 2000 consolidated financial statements was delayed for a number of reasons, including delays in completion of the financial statements for various pension funds.

- The government's annual budget is not, and ideally in our view should be, presented on the same basis as the financial statements. This would allow more detailed and specific budget-actual comparisons. However, we acknowledge that a move to a fully consolidated budget will require further education, and adjustment to the annual budget process of departments and agencies. Further, such a move would need to be considered along with other improvements to information provided to the House on government's fiscal and financial plans (e.g., capital infrastructure plans, treasury management plans).

Treasury Management

2.26 A review of the Province's March 31, 2000 consolidated financial statements indicates that in total there are approximately $30 billion of treasury-related accounts or balances to be managed and controlled by government. These include the following account totals or balances as at March 31, 2000 reported in the consolidated statement of financial position, supporting schedules and notes to the financial statements.

Public Accounts References	Description	($ millions)
Statement of Financial Position	Cash and Short-Term Investments	$445.4
	Loans and Investments	$994.1
	Bank Advances and Short-Term Borrowings	$738.9
Schedule 4 - Unmatured Debt	Gross Debt	$14,981.9
	Sinking Funds, Public Debt Retirement Fund and Defeasance Assets	$4,401.0
Schedule 6 - Direct Guarantees	Total - Direct Guarantees (Authorized)	$1,010.0
Note 7 (d) - Pension, Retirement and Other Obligations	Market Value of Assets, including 100% of Public Service Superannuation Plan	$6,677.3
Note 11(b)(i) - General Commitments	Various	$192.4
Note 11(b)(ii) - Environmental Sites	Sysco & Sydney Tar Ponds	$318.5
Note 11(b)(iv) - School Maintenance and Development Agreements	Net present value of $703.5 million total lease payments at 6.5%	$380.0

2.27 The volume (i.e., numbers or dollar value) of transaction activity during the fiscal year is not reflected above and it would provide a more complete context for considering the overall magnitude of the Province's treasury management activities.

2.28 Most, but not all, of the Province's day-to-day treasury and management activities for such accounts or balances are to some extent (directly, or at least indirectly) the responsibility of the Investments, Pensions & Treasury Services Branch of the Department of Finance.

2.29 There has been, and should continue to be, closer scrutiny of government's annual budget and results (i.e., surplus or deficits) as well as the Province's net direct debt. However, in our view, additional attention could be directed by the House towards holding the government accountable for its longer-term plans and performance in the various treasury functions or areas. Other related considerations are the longer-term plans and requirements to develop and maintain the capital infrastructure necessary to support the quality of public services intended.

Other Matters

2.30 The comments in this section relate to a variety of matters of an accountability or control perspective that may be of interest to the Legislative Assembly.

2.31 *Provincial Data Centre services* - In the early 1990s, the government entered into contract arrangements to outsource its Provincial Data Centre processing requirements. Those arrangements were renewed effective October 1998 for a five-year term. The arrangements call for annual review by an independent audit function of the control procedures in place for the resources used for the processing of Provincial systems.

2.32 Since the programs, processing and data for significant Provincial systems reside at the Data Centre (e.g., including HRMS, RMV, OASIS, JOIS), we believe that the results of an independent control review would be of interest to the Members of the Legislature. Exhibit 2.6 on page 30 is a copy of the most recent *Auditors' Report on Control Procedures* as it relates to the Province's outsourced Data Centre services.

2.33 *Procurement policies and reporting* - It is our understanding that, while planned statutory provisions relating to authority of the government's procurement policy are not yet in place, all Provincial bodies are expected to adhere to the procurement policies established by the Province. Further, all exceptions from the procurement policy are to be reported to the Procurement Branch, now part of the Department of Transportation and Public Works (T&PW) which subsequently must report to the Priorities and Planning Committee.

2.34 *The Province of Nova Scotia, Policy on Government Procurement, Section 12, Information and Reporting*, issued January 1, 1996 states *"where a procurement is to be undertaken that is an unsolicited proposal, is sole sourced, or is to be for a price other than the lowest tender, the Deputy Minister in the client department or equivalent officer must submit it to the Priorities and Planning Committee for approval."* Section 12 further requires that if the Priorities and Planning Committee grants approval, the Minister and Deputy Minister of the Department (T&PW) must be formally notified.

2.35 To ensure Section 12 is complied with, the Procurement Branch performs biweekly audits of transactions processed through the government's internal corporate financial management system. Irregularities noted are provided to departments for explanation and action. The Procurement Branch reports exceptions to the Priorities and Planning Committee. At present there is no requirement for the Priorities and Planning Committee to report to the House of Assembly. Accountability would be enhanced if a report on procurement policy exceptions was provided to the Members of the House of Assembly, and if such reporting was available on a timely basis.

2.36 *Supplement to the Public Accounts* - The *Supplement* includes detailed information on staff salaries and other payments made for government departments and certain agencies which use the government's corporate financial management system. We are not aware of any statutory provision or current policy directive requiring this level of detail to be published. Further, we note that the *Supplement* only covers departments and certain agencies of government. Similar information is not published for a number of significant crown corporations, agencies or other Provincial public sector entities.

2.37 The reporting thresholds (i.e., the amounts above which detailed information is provided) for the *Supplement* were as follows:

Salaries	$ 25,000
Travel	$ 3,500
All other payments	$ 5,000

2.38 These reporting thresholds have not been updated or amended in a number of years. We suggest that, after consideration of the information and accountability needs of MLAs and other interested parties, government establish compensation and other disclosure standards applicable to all departments, crown corporations, agencies and other Provincial public sector entities. For example, implementation of disclosure standards similar to those established by security or other financial regulatory bodies for executive and management compensation would provide meaningful information to MLAs and other interested parties.

2.39 *Public sector compensation disclosure* - Compensation arrangements, including salaries, wages, benefits, etc., represent a significant portion of the costs of government.

2.40 At the current time, there is no statutory or policy requirement for information on compensation arrangements to be reported publicly (i.e., to the House). However, as discussed above, government has traditionally published, among other information in the *Public Accounts Volume III - The Supplements,* the salary information for core departments and agencies (i.e., for individuals earning $25,000 or over per year).

2.41 We requested information as at March 31, 2000 on compensation arrangements for executive or senior management positions from organizations included within the government financial reporting entity. Further, we gathered general background information on such compensation reporting requirements in other jurisdictions. The following are our initial overall observations based on a review of the information provided.

- Compensation arrangements for deputy heads and senior management positions of non-departmental entities (e.g., crown corporations, health boards and hospitals, school boards) on average are more generous than those for departments and central agencies.
- Market adjustment and bonus arrangements have been used to enhance the compensation for selected positions.
- There were instances where the deputy head position of an entity was compensated less than certain positions reporting to it.
- The use of vehicle allowances as part of compensation arrangements for positions below the deputy head level appears to no longer be linked to travel requirements.
- Generous benefit programs form part of virtually all compensation arrangements.

2.42 Information from other jurisdictions indicates a move towards reporting of senior management compensation. Certain jurisdictions actually have statutory requirements for such information to be made public.

2.43 While interested parties could request information on compensation arrangements under the Freedom of Information Act, we believe that such information should be available to the House as a matter of course. In this regard, we can see no rationale why compensation arrangements for positions responsible for the management, control and use of public funds should not be subject to at least the same or similar disclosure requirements as those applicable to corporations traded publicly on various stock exchanges.

2.44 The Department of Human Resources' response to the above comments is noted on page 31 at the end of this chapter.

2.45 *Management Manuals* - Traditionally, the Government of Nova Scotia Management Manuals had been used as the repository of approved administrative policies, directives and related guidance. However, in recent years, the maintenance of the Management Manuals has not kept pace with various policy changes or adjustments. Policy statements or guidance has been provided through various alternative means, while the Management Manuals have not been formally updated.

2.46 It is our understanding that the Management Manuals are being revitalized and should be updated within the next six to twelve months. While we acknowledge this initiative, it is suggested that clarification be provided as to the applicability of the policies and guidance provided. For example, do they apply to all Provincial public sector entities, or just to core government departments and central agencies?

2.47 For instance, an updated Travel Policy statement (i.e., section 7.1 of Management Manual 500) was released with an effective date of October 1, 2000. That statement indicates:

> *This Policy applies to all civil servants whose terms and conditions are set out in accordance with the Civil Service Act and Regulations and all bargaining unit staff who are employed by the Government of Nova Scotia, in addition to Ministers, Deputy Heads and other persons traveling on government business, including training. It does not apply to those persons whose travel is governed by other authorities.*

2.48 The first sentence of the above refers to "*...persons traveling on government business...*", but the scope of *government business* is not defined. Further, a review of travel policy statements gathered from various Provincial public sector entities, including those considered part of the reporting entity for purposes of the government's consolidated financial statements, indicates a variety of travel policy limits or practices in place.

2.49 The concern or issue is not only the fact that staff involved in the performance of *government business* may be reimbursed for travel expenses at different rates or under differing policy arrangements depending on where they work within the Provincial public sector. Rather, it is a broader and more fundamental issue. All Provincial public sector entities are involved in the use and control of public funds or property. There is only one public purse, so why should different administrative policy statements, guidance or limits need to be developed, maintained and applied across the Provincial public sector? Should not a public dollar expended in a crown corporation, a hospital or a school board be subject to the same limits as that applied to departmental staff or elected representatives?

2.50 Our suggestion is that the Government of Nova Scotia Management Manual policy statements be applicable to all Provincial public sector entities. The starting point for such an initiative would be a clear and concise listing of the basic or fundamental principles to be met when public funds or property are involved.

2.51 As a minimum, this would avoid the unnecessary duplication of effort in cases where specific entities (with Board or senior management involvement) develop and maintain their own administrative policy statements. Further, in those situations where Provincial public funds are used in partnership with other levels of government (e.g., regional economic development entities), appropriate efforts should be taken to ensure that administrative policies and practices are consistent with those in the Management Manual.

2.52 The Department of Human Resource's response to above comments is noted on page 31 at the end of this chapter.

CONCLUDING REMARKS

2.53 An effective accountability framework should provide or result in an appropriate balance of information and reports to the House of Assembly on the plans and performance of government overall and individual departments or agencies, both from a financial and a program delivery or service perspective. The goal is better information and reports, not just more.

2.54 There have been a number of significant initiatives undertaken to improve the quality and timeliness of information and reports available on the government's plans and priorities. The Department of Finance and the Priorities and Planning Secretariat have taken, and are still planning to take, steps to improve the nature and quality of the information and reports available.

Exhibit 2.1

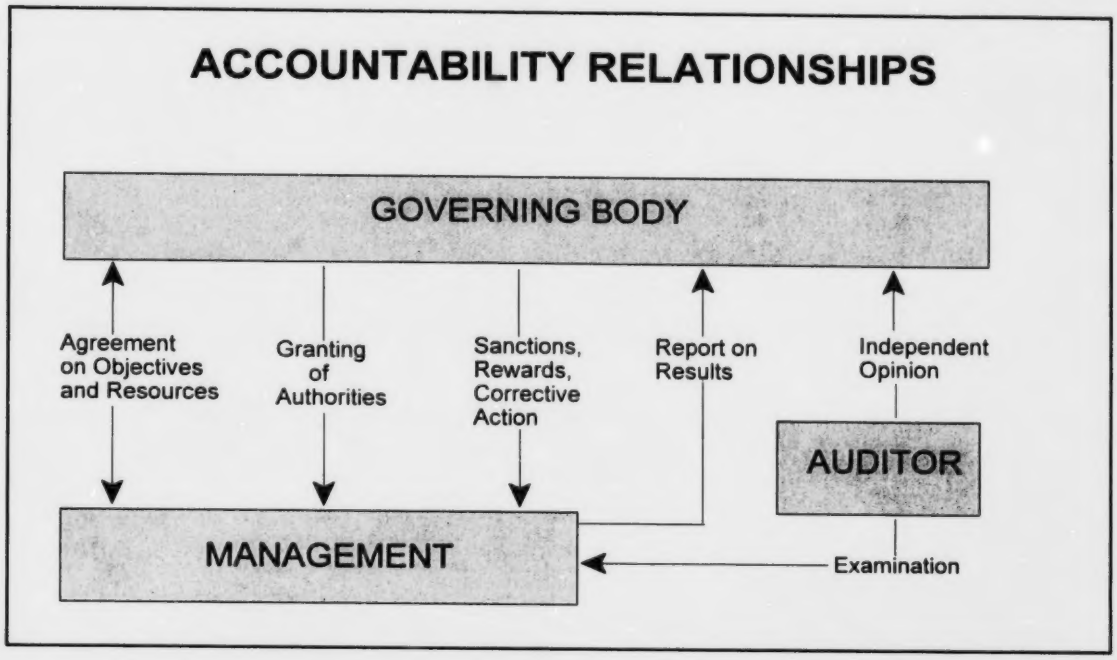


Exhibit 2.2

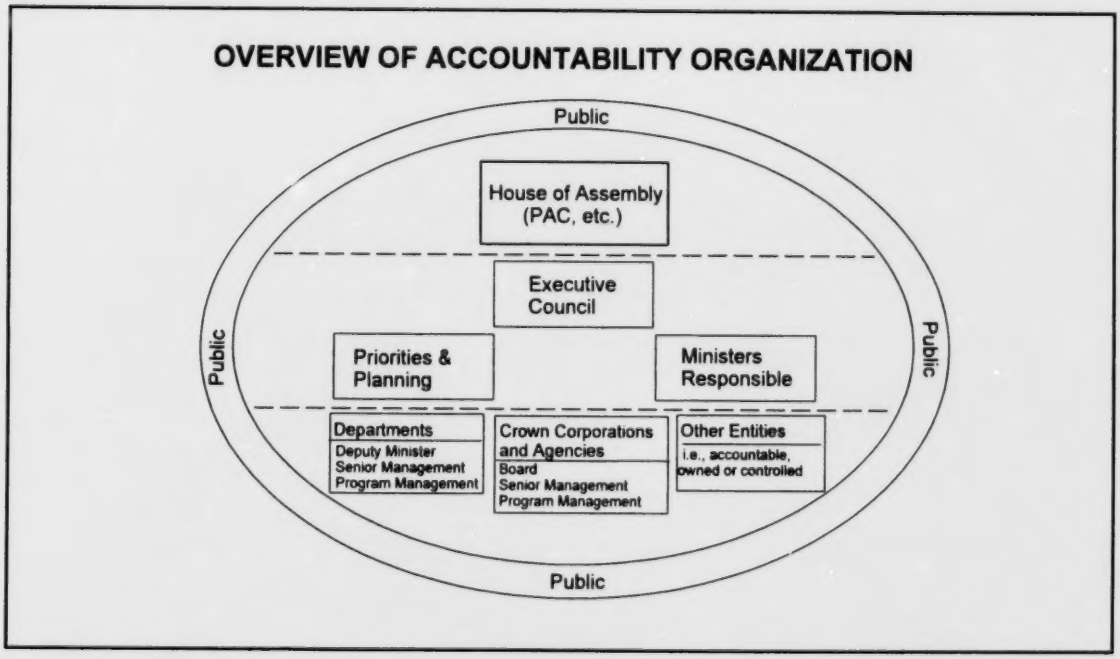


Exhibit 2.3

EXTRACTS FROM CCAF-FCVI PUBLICATION

"Principles for Building a Public Performance Report - A Discussion Paper from Canada's Legislative Audit Community"

Performance information is **relevant** if it has the following characteristics:

- it relates to the stated objectives of the organization and its strategies and programs, and enables an assessment of the extent to which the objectives are being achieved;
- it is reported in sufficient time to influence decisions;
- it measures something that is significant in that it is used in forming assessments and judgements; and
- it is aggregated at an appropriate and meaningful level.

Performance information is **reliable** when it has the following characteristics:

- it is neutral and fair, in that judgements made on performance by users are not influenced by the way information is provided;
- it is reasonably accurate and complete - that is, free from material error or omissions;
- it is capable of being replicated or verified by independent and knowledgeable observers; and
- it faithfully represents the event, results or situation it is measuring.

Performance information is **understandable** if it has the following characteristics:

- it provides the minimum level of detail needed to enable users to gain a proper understanding of the activities and performance;
- it focuses on a small set of key performance measures;
- it provides comparative information over time and it explains the context as to what happened and why it happened, to enable users to judge whether performance is improving or declining over time; and
- it includes comparative information from similar organizations, when reliable, and information regarding best practice, to provide users with a frame of reference for assessing performance.

Further, the CCAF publication suggests that public reporting of performance must have the following six main attributes if the information is to meet accountability requirements fully:

- performance reports should be focused on results and achievements;
- reporting on performance should be done in the context of expectations;
- performance reports should be complete and unbiased;
- performance reports should, as far as possible, explain the linkages between achievements and activities;
- performance reports should relate costs to results; and
- performance reports should clearly describe the strategies, risks, and external context.

Exhibit 2.4

REPORT OF THE AUDITOR GENERAL TO THE HOUSE OF ASSEMBLY ON THE ESTIMATES OF REVENUE FOR THE FISCAL YEAR ENDING MARCH 31, 2001 USED IN THE PREPARATION OF THE APRIL 11, 2000 BUDGET ADDRESS

I am required by Section 9B of the Auditor General Act to provide an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly.

The estimates of revenue for the fiscal year ending March 31, 2001 (the 2000-2001 revenue estimates) are the responsibility of the Department of Finance and have been prepared by the departmental management using assumptions with an effective date of March 7, 2000. I have examined the support provided by the department for the assumptions, and the preparation and presentation of the 2000-2001 revenue estimates of $4,794,941,000 for total ordinary revenue. My opinion does not cover the 1999-2000 forecast, the 2000-2001 expenditure estimates, sinking fund earnings, nor the recoveries, user fees or other income netted against expenditures for appropriation purposes. My examination was made in accordance with the applicable Auditing Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

Commencing with the fiscal year ending March 31, 1999, the Government implemented summary consolidated financial statement reporting in accordance with generally accepted accounting principles. Consistent with prior years, the 2000-2001 revenue estimates have been presented including the total ordinary revenue of the Consolidated Fund established under the provisions of the Provincial Finance Act. As a result, sinking fund earnings and revenue of certain government organizations, which are now reported as revenue in the Province's financial statements, are excluded from the 2000-2001 revenue estimate for total ordinary revenue, but included elsewhere in the 2000-2001 estimates and have not been included in my examination.

Except for the effect of adjustments, if any, which might have been necessary as a result of the matter discussed in the preceding paragraph, in my opinion:

- as at the date of this report, the assumptions used by the Department are suitably supported and consistent with the plans of the Government, as described to us by departmental management, and provide a reasonable basis for the 2000-2001 revenue estimates; and

- the 2000-2001 revenue estimates as presented reflect fairly such assumptions.

Since the 2000-2001 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, although I consider, except for the matter discussed above, the 2000-2001 revenue estimates to be reasonable, I express no opinion as to whether they will be achieved.

E.R. Salmon, FCA
Auditor General

Halifax, Nova Scotia
April 7, 2000

Exhibit 2.5

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Nova Scotia

I have audited the consolidated statements of financial position and tangible capital assets of the Province of Nova Scotia as at March 31, 2000 and the consolidated statements of operations, net direct debt and cash flow for the year then ended. These statements are the responsibility of the Government of Nova Scotia, represented by the Minister of Finance. My responsibility is to express an opinion on these financial statements based on my audit.

Except as explained in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in Canada. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The audited financial statements of Sydney Steel Corporation and the related pension plans for the year ended December 31, 1999 and the final actuarial valuation reports on those pension plans, had not been finalized at the time of my reporting on the Province's March 31, 2000 consolidated financial statements. Since the preliminary versions of this information available during my examination may be changed, I was unable to determine whether adjustments to the net income from government business enterprises or the unusual item reported on the statement of operations might be necessary.

In my opinion, except for the effect of adjustments, if any, which I might have determined to be necessary had I been able to examine the audited financial statements of Sydney Steel Corporation and the related pension plans for the year ended December 31, 1999 and the final actuarial valuation reports on those pension plans, these consolidated financial statements present fairly, in all material respects, the financial position and tangible capital assets of the Province of Nova Scotia as at March 31, 2000 and the results of its operations, changes in net direct debt, and cash flow for the year then ended in accordance with accounting principles generally accepted for the public sector in Canada.

E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
November 30, 2000

Exhibit 2.6

AUDITORS' REPORT ON CONTROL PROCEDURES

To Halifax Outsourcing Centre
EDS Canada Inc.

We have examined the accompanying description (pages 15-20) of the stated internal control objectives of the Halifax Outsourcing Centre of EDS Canada Inc. (*"HOC"*) and the control procedures designed to achieve those objectives and have performed tests of the existence of those control procedures as at March 24, 2000. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Our examination was limited to control objectives relating to the mainframe partition used for the Government of Nova Scotia processing.

In our opinion, the control procedures included in the accompanying description were suitably designed to provide reasonable, but not absolute, assurance that the stated internal control objectives described therein were achieved and the control procedures existed as at March 24, 2000.

The description of stated internal control objectives and control procedures at the HOC is as of March 24, 2000, and information about tests of operating effectiveness of specific controls is only as at March 24, 2000. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the control procedures in existence. The potential effectiveness of specific control procedures at the HOC is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions to future periods, based on our findings, is subject to the risk that changes required because of the passage of time, such as systems changes to accurately process data in the year 2000, may alter the validity of such conclusions.

As our testing of control procedures was limited to a point in time, our opinion on the effective operation of those control procedures is similarly limited.

Halifax, Canada
March 24, 2000

Ernst & Young LLP
Chartered Accountants

DEPARTMENT OF HUMAN RESOURCES' RESPONSE

Thank you for providing the Department of Human Resources with the opportunity to review and comment on those sections of the Auditor General's Report which pertain to human resource management in Government. The relevant sections and our comments are as follows:

[refers to comments made in paragraphs 2.39, 2.40, 2.42, 2.43]

We do not disagree with having statutory requirements for reporting senior management salaries within government departments, but the term "compensation arrangements" is very broad, as is the phrase "all provincial public sector activities". Therefore, we will be investigating the ramifications of publishing the salary and contract arrangements for non-departmental entities.

The Department of Human Resources is pleased to provide the following response to the comments provided in paragraph 2.41 and paragraphs 2.43 through 2.50 of the report.

[refers to comments made in paragraph 2.41]

The government also shares your concern about the range of compensation packages and approaches found throughout the broader public sector.

As a result, the Department of Human Resources was asked to review all aspects of senior government officials' compensation in the fall of 2000. A committee has been established and research is currently underway including market research of compensation and benefits for similar positions in the private sector and other jurisdictions across Canada. The review and recommendations will assist with recruitment and retention while at the same time ensuring fair and transparent compensation processes.

The government is also interested in establishing a pay for performance system for senior officials as indicated in its platform and its commitments. The Department of Human Resources has developed a model for performance evaluation which is currently being implemented in departments.

In addition, comprehensive reviews are currently underway of both management and bargaining unit classification systems.

[refers to comments made in paragraphs 2.43 to 2.50]

While you are right in noting that not all of the Management Manuals have been updated, it is important to note that the Department of Human Resources has maintained and regularly updated the Management Manual 500 of corporate human resources policies. It is anticipated that the development of corporate human resource policy will remain as a centralized function in the Department of Human Resources and that the Treasury and Policy Board will oversee Government-wide policy development and publication of all the Management Manuals.

We also note, in particular, the point made in your 2.8 regarding broader application of certain policies and agree that this should be explored further and particularly for those human resources

policies which have an easily quantifiable financial impact. Having said that, we are also mindful that arrangements which have been the subject of collective bargaining in the broader public service would have to be carefully assessed, as would the appropriateness of extending certain policies to the broader public sector entities.

3.

USER FEES

BACKGROUND

3.1 Governments are increasingly financing their activities through charging user fees to individuals and businesses who directly benefit from government programs and services. Governments have the discretion to charge user fees, and the decision to impose fees is a matter of public policy. Charging fees not only helps to pay for government services, but can also make government services more effective and efficient. For example, user fees can help reduce inappropriate use of products or services previously provided free of charge, such as government literature taken by persons who are not likely to read it. User fees can result in greater appreciation for government services because the user can attribute a value to them based on the fees charged. In such cases, individuals and businesses may use services more wisely and communicate with government on issues relating to the necessity or efficiency of a government service or regulation.

3.2 In deciding to impose user fees, governments will often consider the fairness of charging for government services. Some argue that fairness can be improved by not having taxpayers fund programs and services from which they generally do not benefit. These services would be funded by only those who partake of them. Others argue that charging user fees is unfair because such fees are an impediment to the public's access to government services, and are especially restrictive to individuals of modest means.

3.3 In designing user fee structures, governments will often also consider the consistency with which users of government services are treated. For example, it may be considered inequitable to charge users of a service from one department the full cost of the service, while individuals receive a similar service from another department for a lesser amount. It may also be considered unfair to taxpayers when the fee charged for a service does not cover the whole cost of the service, resulting in taxpayers ultimately subsidizing the service. Another consideration is whether a fee results in lack of participation in government programs which help avert larger government costs in the future (for example, various preventative health or environmental measures).

3.4 For this assignment we defined *user fees* as *charges to individuals, companies and other jurisdictions for the use of government facilities, services and goods*. In contrast to taxes, most of which are not attributable to particular programs or services of government, user fees have the characteristic of associating a payment in return for a specific service or good received. As noted in the following paragraph, the Department of Finance has a more limited definition of user fees.

3.5 During the 1994-95 fiscal year, a change was introduced to the Provincial budgeting process. To provide departments with as much flexibility as possible, certain non-regulatory user fees were permitted to be retained within government departments rather than included in the Consolidated Fund revenues of the Province. User fees were then defined as "*a charge levied for a service performed for identifiable clients that is not regulatory in nature.*" At that time, approximately $28.7 million of non-regulatory fees and other charges were excluded from Consolidated Fund revenues and netted against the costs of specific programs. Most of the changes were implemented in the 1994-95 fiscal year, but we were informed that there are ongoing budgetary initiatives and changes with respect to fee revenues. A report provided by the Department of Finance indicates that, for 1999-2000, non-regulatory fees total $51.2 million.

3.6 In April 1997, government approved in principle 36 policy recommendations of a Task Force set up to study government licences, permits and approvals. The primary thrust of the recommendations was to improve service delivery to the public and make it easier for individuals and businesses to obtain required licences, permits and approvals from government. A secondary goal of the Task Force was the creation of a more reasonable fee structure and a consistent method of determining fees for licences, permits, registrations and certifications (LPRCs). The Task Force recommended that cost recovery be the normal guideline when establishing fee levels for LPRCs, and provided a formula which might be used throughout government to determine the full cost of a service or program. At the time, 288 Provincial LPRCs accounted for about $47.5 million of government's fee revenue, including motor vehicle related revenues of about $37.0 million.

3.7 A steering committee was created in 1997 to oversee the implementation of the Task Force's recommendations. However, the committee has been inactive since October 1999. The recently created Red Tape Reduction Task Force is expected to recommend legislative initiatives to minimize regulatory burdens and improve business regulation, and some of these may impact on user fees.

3.8 Government has made efforts to achieve balanced budgets by reducing expenditures and containing rising costs. Government has also been considering initiatives for increased revenue generation and we were informed that attention is being given to this matter in individual government departments. The government's Business Plan Guidelines for 2000-2001 requested that suggestions for new revenue raising opportunities be included as part of department business plans. The April 11, 2000 Budget Speech discussed user fees and matching costs with benefits, noting that those who benefit from particular services should pay more to help sustain those services. New and increased cost-recovery measures outlined in the 2000-2001 Budget total approximately $25.2 million. However, not all planned recoveries may be realized.

RESULTS IN BRIEF

3.9 The following are the principal observations from this audit.

- There are no government-wide policies, procedures or practices to ensure consistent and fair application of user fees.
- No comprehensive information on significant user fee programs is presented to the Legislature, either by individual departments or on a government-wide basis.
- Government indicated that it would implement the 36 policies recommended in the 1997 Licences, Permits and Approvals Task Force report, but no significant progress has been made on the financial aspects of the recommendations.
- The Task Force report and recommended policies do not extend to approximately 300 Provincial agencies, boards and commissions, and there are no estimates of the numbers of user fees or total revenues associated with these entities.
- Departments have not reviewed all government programs where user fees are charged and, due to the Eurig Estate court decision, may be putting sources of government revenues at risk of court challenge.
- User fees for most hospital-based health care services are not based on actual costs because management information systems cannot provide the information needed to determine costs.

- There is no apparent rationale for fees charged by the Registry of Deeds or for personal property registration.

- It has been approximately thirteen years since government last completed an external review of its method of calculating fees charged to companies which harvest trees from Crown lands.

AUDIT SCOPE

3.10 In the fall of 2000, we completed a broad scope audit of government user fees in accordance with Section 8 of the Auditor General Act. The objectives of the assignment were to review and assess:

- the authority under which certain user fees are levied and collected, and the accountability structure and reporting practices for user fees;

- the principles, policies and practices that guide government in the determination and management of user fees; and

- due regard for economy and efficiency in the administration of user fees.

3.11 Audit criteria were developed to assist us in the planning and conduct of the audit. They are described in Exhibit 3.1 on page 50.

3.12 As part of this assignment we interviewed staff of the Department of Finance, Priorities and Planning Secretariat, and the former Department of Business and Consumer Services to gain an understanding of recent government-wide initiatives related to user fees. We also reviewed specific programs in the following government entities:

- (former) Department of Business and Consumer Services
- Department of Health
- (former) Department of Housing and Municipal Affairs
- Department of Natural Resources
- Nova Scotia Alcohol and Gaming Authority

PRINCIPAL FINDINGS

General Government

3.13 *Task Force* - In the summer of 1996, a government Task Force began a review of approximately 288 licences, permits, registrations and certifications (LPRCs) administered by 14 Provincial departments. Of the 288 LPRCs examined by the Task Force, a fee was charged for 146 and no fee was charged for the other 142. The 288 LPRCs accounted for about $47.5 million of government revenues, which included motor vehicle related revenues of about $37.0 million.

3.14 Due to time limitations, the scope of the project did not include fees charged by agencies, boards and commissions of the Province. We understand that there may be up to 300 such entities,

several of which charge fees, but there is no estimate of the total fees levied by these entities. The scope of the project also did not include any fees unrelated to LPRCs, such as fees for services and government leases. Again, there is no estimate of the total value of these fees. Further, there may be other fees not reviewed by the Task Force which fit the definition of user fees adopted for our audit. We cannot determine total user fees because there is no comprehensive list of all user fee programs.

3.15 In April 1997, the Task Force issued a report to government recommending 36 general policies related to Provincial LPRCs. The primary thrust of the recommendations was to improve service delivery to the public and make it easier for individuals and companies to conduct their business. A May 2000 internal summary on the Licences, Permits and Approvals Project noted several accomplishments as a result of the work of the Task Force.

- Several LPRCs were changed from requiring annual renewals to requiring renewal every three years.
- Two "Business Efficiency" Bills were enacted which addressed some recommendations of the Task Force (in place of the Omnibus Bill anticipated by the Task Force).
- The Nova Scotia Business Registry was created to streamline the application process for many LPRCs formerly administered by a number of departments.
- Over half of the 96 specific recommendations of the Task Force have been implemented.

3.16 A secondary goal of the Task Force was the creation of a more reasonable fee structure. The Task Force's report recommended that there should be a consistent approach to setting fees for LPRCs, and cost recovery should be the normal guideline for calculating them. Anything less would be, in effect, a subsidy by taxpayers to the acquirer of the respective LPRC. We understand that, although the Task Force's recommendations were accepted in principle by government, the policies relating to setting fees, the formula for determining costs of services, and the policy relating to fee premiums when a LPRC confers an economic benefit (such as harvesting a Provincial resource) have generally not been implemented in government departments.

3.17 The Task Force limited the scope of its work in order to complete the project in the relatively short time frame provided. The Task Force's report recognized its limitations and identified a series of 'Next Steps' to be completed in the short term (60 days) and longer term (18 months). We found that a number of the 'Next Steps' have not been acted upon in the three and one-half years since the report was approved in principle by government. We are informed that the 'Next Steps' were not part of the mandate of the Steering Committee set up to oversee the implementation of Task Force recommendations, and responsibility for implementing these steps was not assigned to any group or individual. The steps not acted upon include:

- development of a system for tracking implementation of the 36 policies;
- progress reports to the Priorities and Planning Secretariat every six months;
- consideration of forming working groups to study other issues identified by the Task Force;
- forwarding working group recommendations and implementation proposals to the Priorities and Planning Secretariat; and

- identifying Provincial agencies, boards and commissions administering LPRCs and requesting them to adopt the policies recommended in the report.

3.18 In April 1997, after the Task Force's report was accepted in principle by government, a steering committee was formed to continue the work. We understand departments were made individually responsible for implementing Task Force recommendations for their own fee programs. However, we saw no reporting by departments on their responsibility for implementing Task Force recommendations, nor on the financial or other effects of the new policies. In addition, the Task Force report anticipated that the Priorities and Planning Secretariat would receive steering committee progress reports and would approve further work related to LPRCs. However, we found there was no central monitoring of the project after the Task Force issued its report and the steering committee was formed, and initiatives to create a consistent approach for fees across government have languished.

3.19 We could not determine the financial effect of fee changes between the issuance of the Task Force's report and the date of our audit, but we understand there have not been significant changes to most user fees since 1997. We were told that as a result of the 2000-2001 Provincial Budget, approximately 100 fee changes will be implemented; possibly generating up to $25.2 million of extra revenue. The two largest incremental revenues were Pharmacare co-pay fees and ambulance fees. However, subsequent to the Budget, changes to the proposed ambulance fees were announced, and thus not all of the forecasted revenue increase may be realized.

3.20 The report recommended that an Omnibus Bill be prepared to make legislative changes required for the implementation of certain recommendations. However, it was left to individual departments to pursue legislative changes relative to their own LPRCs. Two Bills were passed by the House of Assembly in 1998 and 1999 relating to business efficiency. These Bills were in place of the Omnibus Bill anticipated by the Task Force, and all departments were invited to include legislative changes. These Bills only dealt with some of the legislative changes needed for LPRCs of the former Department of Business and Consumer Services and the former Department of Agriculture and Marketing. We could find no information on the progress of legislative action proposed for LPRCs managed by other departments. The recently created Red Tape Reduction Task Force is mandated to review the Provincial regulatory environment and make recommendations to minimize regulatory burdens and improve business regulation. It is not clear at this time whether this Task Force will pursue certain legislative initiatives recommended by the Licences, Permits and Approvals Task Force.

3.21 *The Eurig decision* - In October 1998, the Supreme Court of Canada delivered a decision on probate fees charged by the Province of Ontario to the Estate of Donald Valentine Eurig. The Court concluded that the probate fees amounted to a tax. According to its decision, if fees are levied to provide general revenues for a government, they are tax-like in character and must be imposed by legislation. The probate fees were struck down because the fees were compulsory, there was no reasonable connection between the amount of the fees and the costs of providing the services, and the fees were imposed by way of regulation, not legislation.

3.22 The decision impacts all jurisdictions where probate fees are similarly imposed. However, the supporting rationale of the decision is not confined to probate fees. To avoid being classified as a tax, the level of fees must approximate the cost of providing the service. Thus government departments and agencies must be able to associate the cost of service with the amount of fees charged if they are to have confidence in their authority to charge fees.

3.23 In Nova Scotia, a memorandum dated May 1999 was circulated to all Deputy Ministers asking them to have their departments review the services for which fees are charged and determine if the fees can be justified by the associated costs. The Eurig decision did not specify which costs

could be considered in the calculation of a fee. We understand that costs for specific programs may be incurred in more than one department and not all costs of government are necessarily allocated to the individual departments incurring them. For example, debt servicing charges of $814 million comprised about 16% of total net expenses of the Province for the 1999-2000 fiscal year, and were accounted for only by the Department of Finance. We expect there are other costs which are not allocated to individual departments and programs, but we could not find a comprehensive list of significant unallocated costs. Significant costs which are not allocated to Provincial entities should be tabulated and made available so departments and agencies can estimate the full cost of each major program for which user fees are charged. We were told that the Department of Finance is currently working on a system which will allocate expenses to individual departments.

3.24 Some government entities evaluated the risks presented by the Eurig decision. The documentation we reviewed often noted, as mentioned above, that not all costs related to the fee-generating activities were associated with the program under review. An example of such a situation is the fees collected for the licensing and registration of motor vehicles. Whereas the revenues collected may exceed the cost of operating the Registry of Motor Vehicles, the fees are meant to also pay for driving and highway safety programs, some of which are the responsibility of the Department of Transportation and Public Works.

3.25 The Department of Justice reviewed its regulatory programs and established that the only significant fees charged, other than probate fees, were those levied by the various courts. Legislative amendments were made to establish the proper authority for probate fees. A recent court decision in Nova Scotia in which the Eurig decision was applied generally upheld the regulatory authority to establish some court fees. The evidence submitted in the case indicated that fees substantially failed to recover the cost of operating the courts. However, the decision indicated increasing certain other court fees could unduly restrict access to justice.

3.26 Contemporary publications and guidelines suggest that legislative authority for user fees be in the form of a general framework for the application of fees, and that legislation should not establish the precise amount of the individual charges. This would enable fees to be adjusted without legislative amendment, thus providing governments with the flexibility to react quickly to changes in cost structures and the nature of services provided. However, the Eurig decision stands as a reminder that setting fees through legislation is required if fee revenue is expected to significantly exceed the costs of the relevant service.

3.27 *Accounting and reporting* - User fee programs are not centrally managed or monitored by government. Accordingly, we could not obtain current government-wide information on fees charged, related costs, supporting legislation and regulations, dates and support for recent changes, etc. We had to approach departments individually to get information on their user fee programs.

3.28 We also found that there is no timely, complete reporting of user fees to the Legislature, including such information as the nature and volume of fees collected and how the money was spent. The Public Accounts are not a good source of such information because in some areas fees are netted against expenses, and fee revenues may be classified differently in the accounting records of different departments. The Department of Finance informed us that there are traditional guidelines for classifying different types of revenues, recoveries and fees, but they may not be followed by all government entities.

3.29 *Conclusion* - Although Nova Scotia governments have had significant initiatives and interest in the area of user fees over the last several years, we note there has been no significant coordinated progress towards implementing fair, consistent user fees across all Provincial government departments and other entities. The 1997 Task Force recommendation to establish cost recovery as the normal guideline for setting fees for LPRCs has not been implemented.

3.30 There is no manual or other compilation of government-wide principles, policies, procedures or practices which departments can use as guidance in the setting and management of user fees. There is little support available to departments in determining other government costs which could be considered when assessing fees charged for various services. There is no consistency in how government departments and other entities determine the amount charged for their services and programs. Some taxpayers may be paying full cost for certain services while taxpayers receiving services from other programs may be subsidized by general government revenues. This information is not reported to the Legislature.

Department of Business and Consumer Services

3.31 In 1997, the former Department of Business and Consumer Services (BCS) co-directed the Task Force on Licences, Permits and Approvals, and chaired the subsequent steering committee. At that time, BCS was responsible for 63 (22%) of 288 LPRCs. In May 2000, the Department was responsible for 69 (23%) of 303 LPRCs. The 1999-2000 Provincial Estimates indicate that BCS will have approximately $64.7 million of revenue from LPRCs, which includes about $44.3 million from motor vehicle related activities.

3.32 The responsibility and authority for the Department's user fees are documented in legislation or regulations. Fee levels are approved by government when requests for fee revisions are sent to Executive Council. We understand that there have been few changes to fee levels in the Department since 1997.

3.33 There was no requirement for BCS to issue an annual report, thus there has been no reporting of user fee information to the Legislature. Some information on revenues is provided in the Annual Estimates and Public Accounts, both of which are tabled in the House of Assembly. However, the information does not compare the revenues and costs of programs and thus it is not possible to determine which programs are self-sustaining and which programs are subsidized by other government revenues. We believe legislative control and oversight could be enhanced if such information was available to the Legislature.

3.34 There are no government-wide policies, principles or practices related to user fees. Similarly we found no policies on user fees in the Department. In the three and one-half years since the Task Force's report, the Department has yet to review all of its LPRCs to ensure full cost recovery or to justify cases where no fees are charged or fees are less than total program costs. In 2000, BCS began a pilot study of 30 LPRCs to determine the costs associated with each item. The study was abandoned due to problems determining and allocating the costs involved. In certain cases it was concluded that relevant costs may be incurred in several departments. As described above, costs related to driver and motor vehicle programs are also incurred in the Department of Transportation and Public Works. In preparing its 2000-2001 budget, BCS reviewed certain functions of the Registry of Motor Vehicles and new fees were implemented to make certain services more efficient and to recover more of the costs of services. The Department does not plan to review all of its current fees at this time, but indicates it will analyze and compare program revenues and costs when fees are to be changed.

3.35 An internal analysis prepared by BCS for its 1999-2000 budget compared revenues and costs of its various divisions. The Department believes that where revenues exceed costs, there is not a significant risk of legal challenge based on the Eurig decision because costs accounted for by other Provincial entities can be directly or indirectly associated with these programs. However, as described above, the extent and applicability of these other costs have not been fully determined.

Department of Health

3.36 The Department of Health charges user fees in four main areas:

- Hospitals - insured services provided to residents of other jurisdictions, and uninsured services
- Physicians - insured services provided to residents of other jurisdictions, and uninsured services
- Long-term care - residents' contributions towards cost of care
- Emergency health services - transportation costs associated with ground ambulance and air medical transport programs.

Hospital Services

3.37 Pursuant to the Canada Health Act, Canadian residents receive insured, medically necessary, hospital services free of charge. The Medical Services Insurance (MSI) Plan administered by the Department of Health provides insured services to Nova Scotia residents.

3.38 Under the portability provisions of the Canada Health Act, residents can access hospital services in any province. The financial responsibility for services provided to residents of Canadian provinces rests with the patient's home province.

3.39 Members of certain user groups such as the RCMP, veterans and Armed Forces personnel are not insured under the Nova Scotia MSI plan.

3.40 User fees are levied for uninsured (not medically necessary) hospital services and for insured services to non-Canadian residents. In addition, acute care facilities levy fees for non-medical services. Examples of non-medical services which attract user fees include private and semi-private accommodations, parking, dietary and laundry services.

3.41 The authority for acute care facilities to impose user fees for uninsured services, non-medical services, and insured services to non-Canadian residents is provided under Section 11 of the Hospitals Act.

3.42 District Health Authorities (DHAs) and Provincial Health Care Centres (PHCCs), formerly Regional Health Boards (RHBs) and Non-designated Organizations(NDOs), are responsible for levying and collecting user fees. These fees are reflected in the financial statements of these entities as revenues from sources other than the Department of Health, and totaled approximately $89.0 million for the 1998-99 fiscal year.

3.43 *Insured services* - Although the Canada Health Act provides general guidelines to define medically necessary hospital services, each province or territory determines the specific services insured in the jurisdiction. In Nova Scotia, the decision to add or remove services from the list of insured services is made by senior management of the Department in consultation with the Nova Scotia Medical Society.

3.44 *Fees for uninsured services* - Prior to 1995, the Department established policies, procedures and billing rates for various insured and uninsured hospital services. User fee policies and rates were communicated to hospital administrators in a Hospital Reference Manual first published by the Department in the mid-1980's.

3.45 In 1995 the Department delegated responsibility for setting user fees to RHBs and NDOs. DHAs and PHCCs are now responsible for day-to-day billing and collection of user fees.

3.46 Reference Manual sections related to user fees have not been updated since 1995. Department management informed us that, although specific user fee information within the Manual may be somewhat dated, the Manual contains useful policy guidance for hospital administrators concerning user fees.

3.47 The Department does not monitor the practices which organizations use to establish, levy and collect user fees. During the annual budget review process, the Department monitors the reasonableness of anticipated user fee revenues, using 1995 revenues as a benchmark. We have recommended the Department take a more active role in ensuring that user fee policies and practices of health care facilities are reasonable, efficient and economic.

3.48 Although the Department no longer establishes user fee rates for hospital services, the Department expects recovery rates to include the direct costs of the service plus a reasonable provision for indirect costs and overhead. The Department also encourages consistency among the various providers.

3.49 *Fees for residents of other countries, other provinces and uninsured groups* - The Department does not monitor or regulate billings of services to residents of other countries. DHAs and PHCCs determine the fees to be charged and bill the user or the user's private health insurance plan.

3.50 Reciprocal billing agreements exist between all the provinces and territories in Canada stipulating rates at which the various services can be billed. Hospital services to residents of other Canadian provinces are billed and collected directly by the Department of Health, based on information supplied by the service providers. Nova Scotia billed $27.2 million to other provinces during the 1999-2000 fiscal year for insured hospital services.

3.51 Hospital services are billed directly by the health care facility to uninsured groups such as the RCMP, veterans and Armed Forces pursuant to agreements between these groups and the Department.

3.52 *Incentive to maximize user fees* - Since 1995, Provincial funding to Regional Health Boards and Non-designated Organizations has been calculated net of estimated revenues from sources other than the Department of Health. Revenues and user fees in excess of the estimate now remain with the institution for its own use. Department management believe that allowing entities to keep additional revenues will act as an incentive to maximize revenues, and will reduce demands for additional Provincial funding.

3.53 *Audit of Cape Breton Healthcare Complex* - During the 1999-2000 fiscal year, we performed a broad scope audit of the Cape Breton Healthcare Complex (CBHC). The report from that audit is included as Chapter 7 of this Report, page 113. The audit included examination of CBHC's practices related to revenue and user fees.

3.54 CBHC's management information systems are not able to determine costs of most services provided. Therefore, user fee rates are not based on the actual cost of service. We understand that most entities delivering health care services in the Province experience similar difficulties. Management of the Department of Health indicated that costing of medical services is a complex and expensive undertaking. We recommended that the acute care facilities and the Department work towards developing an approach which results in recovery of full costs from all services for which the entities are able to charge fees.

Physician Services

3.55 Pursuant to the Canada Health Act (CHA), Canadian residents receive insured, medically necessary, physician services free of charge. The Act prohibits charging user fees for insured services, and extra billing by physicians. In Nova Scotia, physician services are governed by the Medical Services Insurance Act and provided through the Medical Services Insurance (MSI) Plan administered by the Insured Programs Branch of the Department of Health. Physicians are paid for insured services provided pursuant to a contract between the Nova Scotia Medical Society and the Department. The Department has contracted Maritime Medical Care Inc. to perform the day-to-day administration of the MSI plan.

3.56 Under the portability provisions of the Canada Health Act, residents can access insured physician services in any province. The financial responsibility for services provided to residents of Canadian provinces rests with the patient's home province.

3.57 Members of certain user groups such as the RCMP, veterans and Armed Forces personnel are not insured under the Nova Scotia MSI plan.

3.58 Physicians may charge user fees for services that are not medically necessary, and for services to non-Canadian residents.

3.59 *Insured services* - The Department of Health maintains listings of medically necessary insured services. Changes to the listings are communicated to physicians through information bulletins published by the Department. Decisions to add or remove services from the list of insured services are made by senior management of the Department in consultation with the Nova Scotia Medical Society.

3.60 *Fees for uninsured services* - Examples of uninsured physician services include certain optometry services, dental services, cosmetic surgery and acupuncture. The Department does not monitor or regulate fees for uninsured services. Physicians are responsible for billing and collection of fees for uninsured, not medically necessary, physician services. These billing arrangements are considered by the Department to be the private business affairs of the physician.

3.61 *Fees for residents of other countries, other provinces and uninsured groups* - Uninsured patients are primarily residents of other countries. The Department does not monitor or regulate billings to these individuals. Physicians determine the fees to be charged and bill the user or the user's private health insurance plan.

3.62 Reciprocal billing agreements, stipulating rates at which various physician services can be billed, exist between all the provinces and territories in Canada. Maritime Medical Care bills physician services to other Canadian provinces based on claims submitted by physicians, and makes collections. Reciprocal billing rates are based on the fees that would be paid to the doctor by the physician's home province for similar services. In 1999-2000, Nova Scotia received payments from other provinces for physician services of $9.7 million.

3.63 Physicians bill uninsured organizations (such as RCMP, Armed Forces and others) pursuant to agreements between the organizations and the Nova Scotia Medical Society. The Department does not monitor or regulate fees for physician services to these groups.

3.64 *Ensuring no user fees were charged* - Maritime Medical Care is responsible for auditing payments to physicians. Requests are sent to approximately 1% of patients for confirmation of certain information including any fees charged for insured services. If fees had been charged, Maritime Medical Care would follow up with the physician's office.

Long-Term Care

3.65 There are presently 72 nursing homes and homes for the aged with 5,901 beds in the Province. The majority of these homes are operated by private owners and not-for-profit groups. Seven homes are affiliated with hospitals. The Department of Health licenses these homes under the Homes for Special Care Act and regulations. No fee is charged for the annual licence.

3.66 In 1999-2000, expenditures for long-term care facilities were $241.9 million, with approximately $84.9 million funded by residents and $157.0 million funded by the Department of Health.

3.67 Long-term care is not an insured service under the Canada Health Act. Residents of nursing homes and homes for the aged are charged a per diem rate by the homes. The Social Assistance Act provides for financial assistance to residents if their financial resources are inadequate to meet their cost of care. This assistance is provided under the Long-Term Care Program of the Department of Health.

3.68 Resident contributions to the cost of long-term care are a variation on the concept of user fees. The contributions go directly to the homes, rather than to the Province. However, the required contribution is set by the Province and the total cost to the Province of the Long-Term Care Program is decreased by the resident contributions. The contributions are not reflected as revenues or recoveries on the financial statements of the Province, but rather serve to reduce the Province's expenditures for the Long-Term Care Program.

3.69 *Establishing per diem rates* - Each year, the Department of Health calculates approved per diem rates for the various long-term care facilities in the Province based on budget information submitted by the facility operators. There are no written policies defining types of costs permitted to be included in a budget, but salaries, benefits, maintenance, equipment and other operating expenses are typically included. Approved rates during 1999-2000 for the various facilities ranged from $90 to $159 per day. The per diem rates approved by the Department dictate the facility operator's billing rate to all facility residents, regardless of whether the resident receives Provincial assistance.

3.70 *Establishing eligibility for Provincial assistance* - A resident's eligibility for financial assistance is assessed by field staff of the Department of Health pursuant to criteria contained in a joint policy manual developed with the Department of Community Services.

3.71 Residents who require Provincial assistance are expected to make a financial contribution toward their care. The required resident contribution is assessed by the Department and reduces the amount of Department assistance paid to long-term care facility operators. Assistance payments are calculated to cover the shortfall between a resident's contribution and the approved per diem rate for that home. Facility operators are responsible for collecting the required financial contribution from the resident.

3.72 Residents must apply their income to their cost of care prior to being eligible for financial assistance from the Department of Health. A resident's contribution includes the assignment of Canada Pension Plan, Old Age Security, private pension benefits and other income sources, plus proceeds from the disposal of investments and assets. Applicants are permitted to retain a small monthly amount for personal items. Income or assets transferred by the applicant to third parties during the 36 months prior to their application are included in the individual's financial resources when determining eligibility for financial assistance. The needs of a spouse staying at home are also considered when determining financial eligibility.

3.73 The Social Assistance Act does not require applicants for financial assistance to sell their primary residence to pay for their costs of care. Applicants can "designate" a primary residence which excludes this asset from the contribution calculation. This matter was discussed in more depth in the 1997 Report of the Auditor General, Chapter 6, paragraphs 6.29 to 6.33.

3.74 *Monitoring of resident contributions* - In December 1999, the Audit and Consulting section of the Department of Health completed, for the first time, a review of the financial assessment process performed by Department staff. This audit revealed instances of non-compliance with Department policies in the assessment and collection of resident contributions. Findings resulting from the audits are documented in an audit report to Department senior management and followed-up by staff. Follow-up reviews will be completed by the Audit and Consulting section if necessary to determine whether corrective action has been taken.

3.75 *Monitoring of facilities* - Most facility operators submit audited financial statements to the Department, with the remainder providing unaudited financial information. Department of Health staff review audited financial information, on a limited basis, to judge the reasonableness of budget submissions for the current year. The financial statements also provide accountability information for the prior year budget submission and the related per diem rate calculation. Department staff informed us that resources are not adequate to perform detailed analysis of the financial information provided by facility operators. The 1998 Report of the Auditor General, Chapter 11, included recommendations for improvement to the Department's systems for monitoring long-term care facilities.

Emergency Health Services

3.76 During the winter of 1999-2000, we performed a broad scope audit of Emergency Health Services Nova Scotia (EHSNS); a branch of the Department of Health. The report from that audit is included as Chapter 8 of this Report, page 137. We reviewed user fees, with the assistance of the Department's Audit and Consulting section, within the scope of that audit, and related findings are summarized below.

3.77 EHSNS is responsible for providing pre-hospital emergency health services to Nova Scotians. User fees are charged for the transportation components of the ground ambulance and air medical transport programs.

3.78 The collection of fees for the ground ambulance program is the responsibility of a contractor (Emergency Medical Care Inc.) which provides day-to-day operational management for this program. The contractor is expected to remit to EHSNS all user fees collected up to 75% of fees billed. If collections fall below 75% of amounts billed, then EHSNS bears the cost of the uncollected user fees and has the right to terminate the collection arrangement with the contractor. Collections by the contractor in excess of the 75% billed are shared equally by the contractor and EHSNS. The value of user fees remitted to EHSNS by the contractor during the 1999-2000 fiscal year was $4.4 million and is estimated to increase to $5.9 million in 2000-01. The increase is attributable to rate changes implemented in April 2000. The total expenditures of EHSNS for the same period were $57.6 million.

3.79 For residents of Nova Scotia, the charge for emergency air medical transport is the same as for ground transport. However, New Brunswick and Prince Edward Island have contracted with Nova Scotia to use the air medical transport services of EHSNS for transportation of residents of those provinces when required. Fees are billed to New Brunswick and Prince Edward Island pursuant to inter-provincial contracts negotiated with these provinces. The billing and collection of air medical transport services to New Brunswick and Prince Edward Island are administered directly by EHSNS. Inter-provincial collections by EHSNS for the 1999-2000 fiscal year were approximately $0.4 million and are budgeted to be $0.6 million for 2000-01.

3.80 *Establishing user fees* - There are no regulations governing the imposition of user fees by EHSNS for the ground ambulance and air medical transport programs. The current user fee rate structure was developed by EHSNS and approved by Cabinet as part of the budget process. We have recommended that regulations and appropriate legislation for the billing and collection of user fees be developed.

3.81 A summary of the EHSNS user fee rate structure is provided in Exhibit 8.6 of Chapter 8 of this Report, page 137.

3.82 Formal contracts for the billing of air medical transport costs to New Brunswick and Prince Edward Island expired on March 31, 1999. New contractual arrangements were being negotiated at the time of our audit.

3.83 Ground ambulance user fees for Nova Scotia residents are based on a percentage of the estimated annual operating cost of the service. The Canada Health Act prohibits the charging of user fees for medically necessary health services. Therefore Nova Scotia residents are only charged a user fee for the transportation component of operating costs which is deemed to be 20% of total operating costs. EHSNS considers the rates charged by other provinces in determining the fees. We found the process for establishing user fee rates to be well researched and documented.

3.84 The inter-provincial contracts with New Brunswick and Prince Edward Island include a fee for each transport which is based on the estimated cost to Nova Scotia of providing the service to each province.

3.85 *Incentive to maximize collection of user fees* - The contract permits the ground ambulance contractor to share 50% of collections in excess of 75% of amounts billed which provides an incentive to maximize billing and collection efforts. The contractor is responsible for all collection costs which provides an incentive to minimize these costs.

Department of Housing and Municipal Affairs - Land Information Services Division

3.86 During the winter of 1999-2000, we performed a broad scope audit of the Land Information Services Division of the former Department of Housing and Municipal Affairs. The report from that audit is included as Chapter 10 of this Report, page 172. We reviewed revenues/user fees within the scope of that audit, and related findings are summarized below.

3.87 The Land Information Services Division records revenues of approximately $9.5 million annually, and recoveries of approximately $1.5 million. These revenues and recoveries are derived from three sources:

- Sales of maps and geographic data - recoveries of approximately $1.5 million (14%)
- Fees charged by the Registry of Deeds - revenues of approximately $5.2 million (47%)
- Fees charged for registrations and searches under the Personal Property Security Act - revenues of approximately $4.3 million (39%)

3.88 *Sales of maps and geographic data* - The pricing policy for these products and services was examined in 1994 by an interdepartmental group, which made recommendations to a deputy ministerial committee. The group considered three potential pricing bases - full cost recovery, market value and a nominal fee - and reviewed experience in other jurisdictions. The group concluded that both cost recovery and market value approaches might inhibit use of geographic

information, and recommended that the price of this information be set to encourage use and access. In this case, although the fees are not based on full cost recovery, there was a documented rationale for the approach chosen.

3.89 *Fees charged by the Registry of Deeds* - The fees charged for services provided by the Registry of Deeds were last approved by Order in Council in May 1990. We were unable to determine whether there was a rationale for the fees at the time the decision was made. However, at this time, there appears to be no relationship between a specific fee and the cost of the service provided. We recommended that the Division review these fees and prepare a rationale for the fees charged.

3.90 *Fees charged for Personal Property Registration* - The fees for personal property registration were established by Regulation in November 1997 when the electronic Personal Property Registration System was initiated through Atlantic Canada On Line. Similar to the Registry of Deeds, there is no apparent relationship between fees and cost of service, and we have recommended that the Division review these fees and prepare a rationale.

Department of Natural Resources

3.91 The Department of Natural Resources (DNR) is responsible for the most LPRCs of any Provincial department. In 1997, DNR administered 72 (25%) of the 288 LPRCs. Information prepared for the Licences, Permits and Approvals Task Force indicates that there was no charge for 34 of the 72 LPRCs, and modest charges for the other 38 LPRCs amounting to about $1.8 million for the 1995-96 fiscal year. In May 2000, DNR was responsible for 78 (26%) of 303 LPRCs and a fee is now charged for 59 of them. The majority of DNR's fee-based LPRCs are related to activities associated with coal, gas, or minerals; Crown lands and beaches; and hunting. For the 2000-01 fiscal year, Department fees are estimated to be $7.6 million, including $3.7 million for timber and fuelwood licences to harvest wood from Crown land (stumpage fees).

3.92 *User fees* - The Department's annual report tabled in the Legislature does not contain information related to user fees. Certain information is provided in the Annual Estimates and Public Accounts, but generally the information does not compare program revenues and costs. Thus, it is not possible to determine which programs are self-sustaining and which programs are subsidized by general government revenues.

3.93 There are no government-wide policies, principles or practices related to user fees. Similarly, there were no policies on user fees in the Department. The Licences, Permits and Approvals Task Force recommended 36 policies to government, but the policies related to the financial aspects of LPRCs have not been implemented in the Department.

3.94 The Task Force recommended that cost recovery be the normal guideline for setting fees for LPRCs. Currently, DNR does not charge for 19 of its LPRCs and charges only a modest cost for many of the remaining 59. The Department could not provide us with any analysis to demonstrate whether programs for which user fees are charged are on a cost recovery basis, as recommended by the Task Force. The Department's 2000-01 business plan noted that mineral royalties could provide revenue generation opportunities as the rates have been unchanged for many years, but the Department's 2000-01 budget did not include any significant new or increased cost-recovery measures.

3.95 *Eurig decision* - As a result of the Eurig decision (see paragraphs 3.21 to 3.26 above), all government departments in Nova Scotia were asked to review program revenues and costs where fees are charged.

3.96 DNR estimates it will collect approximately $7.6 million in ordinary revenues for the year ending March 31, 2001. No comparison of program costs and program revenues has been carried out, and no review is contemplated. We are concerned that DNR is not complying with the government-wide request and may be putting sources of government revenue at risk of legal challenge.

3.97 *Stumpage fees* - In 1999, the Crown owned approximately 28% of the land in the Province. Small land owners held approximately 50%, large businesses owned 19%, and the Federal government owned 3%. Of the land owned by the Province, approximately 21% was protected from resource extraction and not available for forestry activities, and 40% of the remaining potential annual allowable cut was not available for harvest due to other land use restrictions. There are three major pulp and paper companies (two of which harvest Crown land), 265 saw mills and one hardboard plant operating in the Province.

3.98 Timber on Crown land is owned by the Province and is considered a Provincial asset. The Crown Lands Act authorizes DNR to issue licences and charge stumpage fees for harvesting timber from Crown land. The two major pulp and paper companies which harvest Crown lands are responsible for about 67% of the total timber harvested from Crown lands. Separate Acts authorize each company's harvest and outline the method for calculating stumpage fees. For the 1999-2000 fiscal year, stumpage fees totaled approximately $4.2 million, of which approximately $2.6 million (62%) was collected from the two pulp and paper companies which harvest Crown land. DNR could not provide us with an analysis comparing program revenues to program costs, but we noted that the National Forestry Database Program of the Canadian Council of Forest Ministers records 1997-98 Nova Scotia forest management expenditures of $6.3 million and $4.1 million of stumpage revenues. In 1998-99, the Province spent $6.6 million on Crown land forest management and $14.6 million on private land forest management, and received revenues of $4.5 million related to wood harvested.

3.99 In November 1987, a report was issued by a consultant on his study of stumpage fees, forest management and market access in Nova Scotia (The Reed Report). The report recommended base rates be established for different classifications of timber, and that rates be adjusted regularly through the use of Statistics Canada industry specific indices. The recommended methodology for calculating stumpage fees was accepted and is still being used by the Department.

3.100 When timber is harvested for use as pulp, stumpage fees are lower than if timber is processed at a sawmill for resale. Approximately 67% of the timber harvested by one of the pulp and paper companies is processed as pulp in their own mill. The remainder is processed at sawmills. This company was responsible for 59% of all Crown land timber harvested for the year ended March 31, 2000. The company was charged stumpage fees of approximately $2.2 million (52% of total stumpage fee revenue), for an average price of $7.30 per cubic metre of timber. Virtually all of the timber harvested by the other pulp and paper company is traded to sawmills for pulp chips. This company was responsible for 8% of all Crown land timber harvested and was charged stumpage fees of approximately $0.4 million (10%), for an average price of $10.61 per cubic metre of timber. The companies are charged fees calculated according to a mutually agreed upon methodology recommended by a consultant (paragraph 3.99). The stumpage rates are adjusted annually using product specific price indices applicable to the product manufactured.

3.101 A blended Provincial rate is charged for timber harvested on Crown land by companies other than the two major producers. These other companies were responsible for approximately 33% of all Crown land timber harvested for the year ended March 31, 2000, and were charged stumpage fees of approximately $1.6 million (38%), for an average price of $9.94 per cubic metre of timber.

3.102 We understand that the value of timber fluctuates according to market demand. The last significant review of the base rate for stumpage fees was contained in the November 1987 Reed Report. A consultant was hired in the spring of 2000 to review stumpage fees but the study had not

been finalized at the time of writing our Report. In our view, a thirteen-year period between external reviews is excessive. We understand that the Department performs an internal review of fees about every three years. We believe there should be an internal review of stumpage fees every year and an external review at least every five years.

3.103 *Silviculture costs* - Silviculture helps ensure a healthy regeneration and renewal of forests, as well as increased forest yield. The Department sets and monitors standards for silviculture work on Crown land. The two major harvesters of Crown timber are required by legislation to perform certain silviculture work on lands they are licensed to harvest.

3.104 The two companies also conduct silviculture work on Crown lands other than those they are licensed to harvest. The Province enters into sole-sourced contracts for silviculture work with these two companies, and payments for the year ended March 31, 2000 were approximately $2.5 million to one company and $0.2 million to the other company. The Province also calls for public tenders for silviculture work on other Crown lands. Payments for these tendered contracts totaled approximately $0.3 million.

3.105 We understand silviculture contracts awarded by public tender contain rates lower than those paid to the two major harvesters. Discussions with DNR staff indicate that there are a number of perceived benefits in the current method of awarding silviculture work. In our view, an analysis of the various alternatives should be performed and documented, including the quantification of the costs and benefits of each option.

Nova Scotia Alcohol and Gaming Authority

3.106 The Nova Scotia Alcohol and Gaming Authority had total revenue of $11.6 million for the year ended March 31, 2000. Net revenues after operating costs totaled $5.1 million, and were accounted for as part of the Province's general revenues. Liquor licence fees totaled $7.3 million, of which $6.8 million is attributable to a 9.3% licence fee paid by approximately 2000 licensees (e.g., beverage rooms, restaurants) based on the gross value of liquor purchased.

3.107 The Authority derives its mandate from the Gaming Control Act and the Liquor Control Act, and the authority for its fees is set by regulation. The Authority produces an annual report, but details concerning significant user fees and related costs are not included in the report.

3.108 The liquor licence fee is set by regulation and, until just recently, had not been significantly changed for a number of years. Due to the Eurig Estate court decision, the Authority obtained a legal opinion on its licence fees and prepared an analysis relating the fee revenues to operating costs. Revenues exceed program costs, but it was indicated that there may be costs incurred by other Provincial entities that can be allocated to the licensing program. We recommended that consideration be given to completing the analysis by tabulating any other related costs not accounted for by the Authority.

3.109 On December 8, 2000 Executive Council approved a reduction in the licence fee to 4.1% of the gross value of liquor purchased, effective April 1, 2001.

CONCLUDING REMARKS

3.110 The Province began an initiative in 1997 to review and improve the management of licences, permits, registrations and certifications. However, it was not centrally monitored or controlled. The steering committee set up to implement the recommendations of the Licences, Permits and Approvals Task Force became inactive in October 1999 and progress in implementing the financial

aspects of recommended policies stopped. Government should continue the efforts of the Task Force, particularly those related to pricing user fees, and apply the policies to all Provincial entities. All significant revenue sources should be included in the scope of the work.

3.111 No information concerning user fees is reported to the Legislature. Relevant user fee information should be accumulated and reported on a regular basis.

3.112 The 1998 Eurig Estate decision required the Ontario government to repay user fees which were deemed to be taxes. In general, Nova Scotia government departments have not performed sufficient analysis to ensure significant Provincial revenues are not at risk of a similar legal challenge.

Exhibit 3.1

AUDIT CRITERIA

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and the criteria are used to design detailed audit tests and procedures.

The following criteria were used in our audit of government user fees.

- There should be clear responsibility and accountability for the assessment of user fees. The legal authority to charge fees should be clearly defined and appropriately approved. Appropriate, timely information on user fees should be reported to the Legislature.

- There should be government-wide policies to provide guidance and ensure uniformity and fairness to users of government services. Goals for charging user fees should be documented and explanations provided where no fee is charged or where fee revenues are below program costs.

- There should be clear, documented rationale for the fee rates chosen and the full cost of the program should be determined. Fees should be collected in an economic and efficient manner. Performance targets should be set for fee-based programs and performance should be monitored and reported on a regular basis.

DEPARTMENT OF NATURAL RESOURCES' RESPONSE

General Comments on Paragraphs 3.91 to 3.97

Response: *As was pointed out, DNR is responsible for more LPRCs than any other department. This is due, in large part, to our wide range of natural resource management responsibilities. Many of DNR's LPRCs are regulatory in nature and have resource management implications. Others are mechanisms to recover economic rents from the use of natural resources.*

The rationale for charging for LPRCs related to resource use is to collect the economic rent from the use of valuable public goods by private sector parties. This provides revenue to the government and also promotes the efficient use of the resource by the purchaser (since the charge is based on the value of the economic rent). This is fundamentally different from the concept of cost recovery from the provision of a service. In one case, prices are set by the value of the resource to the user. In the other case, prices would be based on the cost of providing the service.

Two other factors should be considered when determining the appropriate fees for the remaining DNR LPRCs. The first factor is the positive externalities that occur as a result of activities covered under a number of DNR's LPRCs. An example would be the collection of information that can be used for resource management purposes. Clients provide this information as one condition for receiving the LPRC, which benefits the department. There are social, economic, environmental, and resource management objectives that are met, and which benefit all Nova Scotians, as a result of the availability of this information. This is partly a pricing issue; as the price of the LPRC increase, demand for the product falls. As a result, the supply of information available to DNR also falls which, from a resource management perspective, is counter-productive.

A second complicating factor is the way DNR operates. Individual staff are often involved in a range of activities. The effort required to accurately allocate costs to different LPRCs would be a complicated task and could add additional costs without realizing any significant benefits.

Comments on Paragraphs 3.98, 3.102, 3.105

3.98 "In 1998-99, the Province spent $6.6 million on Crown land forest management and $14.6 million on private land forest management, and received revenues of $4.5 million related to wood harvested."

Response: *The Department of Natural Resources has a mandate for the wise management of natural resources for a broad range of resource values and has a commitment to sustainable forests. Therefore, the forest management costs incurred by the Province includes costs for forest resource protection and for the maintenance, enhancement and protection of numerous other resource values, many of which are intrinsic, when planning and carrying out forestry activities. As the report has suggested, the Department does not operate cost tracking systems that provide such detailed information. The information provided to the National Forest Database Program, while indicative, are estimates based on allocating expenditures using indirect measures and are not a strict accounting of resources. For Crown land many of the planning and protection costs incurred by the*

Department in meeting its mandate are not justifiably recoverable through stumpage. In fact planning for other land and resource use values significantly reduces potential stumpage revenue as noted by the AG's report. Likewise much of the Departmental activity for private land are broadly based and are not necessarily related to a specific beneficiary to which a fee could be ascribed other than through general taxation. Sales of other forest resources, activity fees and Provincial revenues from taxation form part of the total revenue equation.

It should be noted that the Atlantic Province's Economic Council in a study entitled "The Economic Impact of the Forest Industry on the Nova Scotia Economy" (March, 2000) estimated that in the calendar year 1998 the Federal and Provincial governments collected in Nova Scotia $89.5 million in income tax and another $39.8 million in HST from wages, salaries and retail sales. These were directly or indirectly attributable to forestry activity and forest product manufacturing. The Provinces share of these amounts is estimated at $57 million per year after stumpage is included. An additional $26.6 million is estimated paid into federal and provincial coffers in net indirect taxes for other forest product activities such as transportation fuel taxes. The forest industry's position as a Foundation Industry to the provincial economy is recognized in the Province's economic strategy.

3.102 ***Response**: The consultants report was publically released January 4th, 2001 and provides extensive recommendations concerning the administration of timber sales and stumpage valuation. Both this and the earlier review advocate the approach that the total cost to a Licencee for Crown timber (stumpage plus other management expenses) should be benchmarked to the fair market value established for the private market. The Department has requested public comment on the reports recommendations.*

3.105 ***Response:** There are considerable planning services provided by licensees in the identification, layout, and monitoring of silviculture work. This partnering with licensees saves the Department considerable field and administrative work which would require additional staffing and budget if it were to be directly undertaken by the Department of Natural Resources. The sole-sourced contracts originate from the provisions of the Acts of the Legislature. However, the Department agrees that the analysis should be done, as has been in the past, for the purpose of setting maximum eligible rates. The maximum rates should not exceed the quantification of legitimate costs and benefits associated with work performed in an efficient manner using cost-effective methods.*

DEPARTMENTAL AUDITS

4.

COMMUNITY SERVICES - GRANTS TO ORGANIZATIONS PROVIDING FAMILY AND CHILDREN'S SERVICES

BACKGROUND

4.1 The Department of Community Services delivers a wide range of social services to citizens of Nova Scotia. The Department has four primary service divisions: Community Support for Adults; Family and Children's Services; Income Assistance and Employment Support Services; and Housing Services. Housing Services was formerly a part of the Department of Housing and Municipal Affairs, but was assigned to the Department of Community Services on August 1, 2000. Most of the services of the Department are delivered by the regional offices, which are classified as a separate division. The organizational structure of the Department is illustrated in Exhibit 4.3 on page 66.

4.2 The Family and Children's Services Division provides child welfare and residential services, day care and early intervention programs, and community outreach programs. It derives its mandate from the Children and Family Services Act, the Day Care Act, and related regulations. The Division fulfills many of its responsibilities by funding and partnering with numerous non-government organizations. For example, various children and family-oriented programs are provided by:

- 335 day care centres;
- 31 child development centres;
- 31 family resource centres;
- 15 early intervention programs;
- 9 transition houses;
- 6 men's treatment programs; and
- 4 family counseling organizations.

4.3 In addition, child welfare services are provided through a combination of Department district operations and 13 non-government family and children's services agencies (children's aid societies). A community residential program funds 31 non-government residential child-caring facilities for children and youth who are experiencing emotional, behavioral, and mental health difficulties. As well, the Department provides children and youth in care with an alternative home setting through the foster care program.

4.4 The Department is also implementing the National Child Benefit program. This program was designed by Federal, Provincial and Territorial Ministers responsible for Social Services and is coordinated by the Council on Social Policy Renewal. The program has two main elements: increased Federal benefits for low income families through the Canada Child Tax Benefit, and investment by the Provinces and Territories in services and benefits for children in low income families. As part of the Province's commitment, the Department provides assistance to low income families through the Nova Scotia Child Benefit Program and funding for various Healthy Child Development Initiatives. These initiatives include community-based prevention, early intervention for children with special needs, and support for day care.

4.5 Family and Children's Services expended $106 million during the 1999-2000 fiscal year. See Exhibit 4.1 on page 64 for an analysis of these expenditures.

RESULTS IN BRIEF

4.6 The following are the principal observations from this audit.

- The Family and Children's Services Division provides grants and assistance to non-government organizations which are eligible to receive assistance. Grants are appropriately supported and approved.
- Systems and controls are sufficient to ensure organizations receiving grants under legislated programs use the funds appropriately to address the goals, priorities and legislative requirements of the Department. However, weaknesses exist with respect to non-legislated grant programs.
- Improvements could be made with respect to performance reporting by all family and children's service organizations funded.
- The Family and Children's Services Division has not used the Department's business plan to prepare a more detailed operational plan to guide the Division in the planning and delivery of its programs and services.
- The Division does not have a formal strategy or model to determine the level of funding for organizations providing services under non-legislated programs. The Division does not use a formula for funding residential child-caring facilities, but funding decisions are somewhat more structured than with non-legislated programs.
- Except for a draft document related to grants to family and children's services agencies, there is no formal documentation of the respective roles and responsibilities of the Division, regional offices and funded organizations for each grant program.
- The Department's inspection and licensing processes are timely and comprehensive. Appropriate and timely follow-up is undertaken to ensure deficiencies observed are corrected. Program reviews are comprehensive and appropriately followed-up, but we believe they should be done on a more frequent basis and more funded organizations should be included in those subject to review.
- We observed that there are various financial and statistical reports generated for the individual grant programs managed by the Department, but there are few outcome measures established and reported.

AUDIT SCOPE

4.7 In November 2000 we completed a broad scope audit of the Department of Community Services under Section 8 of the Auditor General Act. Our audit was performed in accordance with auditing standards established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

4.8 Our audit focused on grants and assistance to non-government organizations providing services and programs to children, families and women. The following programs were selected for examination:

- Family and children's services agencies (children's aid societies)
- Day care subsidies
- Residential child-caring facilities
- Transition houses and men's treatment programs
- Discretionary grants
- Healthy child development initiatives
- Family counseling organizations

4.9 Payments under these programs for the year ended March 31, 2000 totaled $51.6 million and funded over 200 non-government organizations (see Exhibit 4.2 on page 65). The scope of our audit did not include direct payments made on behalf of children in care.

4.10 The objectives of this assignment were to:

- assess whether grants and assistance to non-government organizations are provided only to entities which are eligible to receive assistance; and
- assess Department systems and controls to determine whether they ensure that organizations receiving grants and assistance use the funds appropriately to address the goals, priorities and legislative requirements of the Department.

4.11 Audit criteria were developed to assist in our assessment of the systems and practices of the Department. The audit criteria were discussed with and accepted as appropriate by senior management of the Department, and are outlined in Exhibit 4.4 on page 67. Our audit procedures included interviews with management and staff, testing of grant files, as well as examination of significant reports and other documents.

PRINCIPAL FINDINGS

Introduction

4.12 The Department classifies its family and children's services grants into three program categories:

- Legislated programs - child welfare services, residential child-caring facilities, child care centres
- Non-legislated core programs - transition houses, family resource centres, women's centres, men's treatment programs
- Discretionary grants - various other organizations, such as boys and girls clubs

4.13 Legislated programs administered by Family and Children's Services have specific authority through the Children and Family Services Act and the Day Care Act. Funding of other programs is not supported by specific legislated authority, but is consistent with the general mandate of the Department. As indicated by Exhibit 4.2 on page 65, a majority of funding provided goes to organizations operating under legislated programs.

Funding Strategy

4.14 The Department prepares an annual business plan which describes its mission and strategic goals, as well as core business functions and priorities for the year. The business plan is based upon the Department's legislated mandate, budget for the coming fiscal year, as well as trends observed and lessons learned from the prior year. However, Family and Children's Services has not used the Department's business plan to prepare a more detailed operational plan to guide the Division in the planning and delivery of its programs and services.

4.15 Formal funding strategies exist for two of the Division's legislated programs. Day care centres are funded by way of specific formulae. The funding of children's services agencies is not based on formulae, but there are formal guidelines for determining the number of child welfare caseworkers and their respective salaries which account for a majority of the costs of these agencies. There are guidelines for other salaries as well, but not for non-salary costs.

4.16 The funding of residential child-caring facilities is less structured. These organizations receive a combination of lump-sum and per-diem based grants. There are no formulae or funding guidelines, as with day care centres and children's services agencies. The grants to residential child-caring facilities are based on the individual circumstances and the approved annual budgets of each organization.

4.17 The Division also does not have a formal strategy or model to determine the level of funding for organizations providing non-legislated services. This may be due in part to the fact that the Division provides grants mainly to organizations that have been funded by the Department for many years. Few new organizations receive funding. As a consequence, approved grants are generally based upon historical funding, with adjustments made for changes in staffing and programming, rather than upon a formal assessment of where available funds would be of greatest relevance to the mandate and priorities of the Department.

4.18 We believe there would be advantages to having a more structured means of determining the amount of funds to be provided to residential child-caring facilities and the organizations providing non-legislated services. A formal funding structure would enable these organizations to predict how much funding they will receive in future periods and give them confidence that they are being treated consistently and fairly compared to other organizations. Individual or category limits could be established to ensure total funding does not exceed the Department's budget for such expenditures.

Program Expectations

4.19 The Family and Children's Services Division conveys its performance expectations of organizations providing legislated services by providing them with copies of Department legislation, regulations and policy/procedure manuals. For example, there is a comprehensive manual addressing child protection guidelines and standards which is provided to child welfare agencies. As well, training sessions are provided and there is regular contact between Department staff and management of the organizations.

4.20 We noted two instances where standards for operations are being formalized and enhanced. At the time of this audit, the Department was finalizing Provincial standards for residential child-caring facilities. When these standards are implemented in 2001, residential child-caring facilities will have comprehensive policies and procedures to guide their daily operations. The Department is currently revising the Day Care Act Regulations. Once these regulations have received Executive Council approval, the Division will then update its policies and procedures for the operation of day care centres.

4.21 There are no comprehensive, consolidated listings of standards and guidelines for each non-legislated grant category to describe the organizations eligible for funding, the services they will provide, the standards that are to be met when delivering the services, how the programs will be funded and administered, and requirements for reporting on performance. At this time, the Department has only draft policies and procedures for transition houses, men's treatment programs and children in care. We recommended that the Department implement policies and procedures for all non-legislated grant programs administered.

4.22 In 2000, the Department commissioned a review of the residential child-caring system. The resulting report (*Too Important to Ignore*, Thom Garfat and Grant Charles, April 2000) recommended a process to fund the residential child-caring centres. According to the authors, this process would require that:

- the Department develop specific definitions of the services they require in each region;
- funding rationales be made more explicit;
- all programs develop a specific mandate which identifies which services they offer to which particular clientele;
- the Department enter into annual negotiations regarding the specific services they require from each specific service provider;
- the specific negotiations specify the funding for the particular program being purchased;
- an annual system of monitoring be developed to ensure that the Department is, in fact, receiving the agreed service;
- the specific indicators for determining the usefulness of a particular program or service be agreed on as part of the specific negotiations; and
- if a program fails to provide the agreed service that the Department withdraw the funding for that service.

4.23 Such a process should improve the administration and management of the residential child-caring facilities program. We recommended that the Department consider implementing the process for each of its grant programs.

4.24 In 2000, government established the Interdepartmental Committee on Discretionary Grants to Agencies/Organizations. The mandate of the Committee is to develop and implement a common process to award and administer grants throughout the government's four social-sector departments (Community Services, Education, Health and Justice). When this process is implemented, funded

organizations will need to formally document the purpose of their programs, services to be provided by the organizations, outcomes of the programs, and how the outcomes will be measured and reported. The terms and conditions agreed to between departments and funded organizations will be summarized and documented in a formal service agreement.

4.25 Based on our review of this Committee's reporting to date, its recommendations should provide stronger control over Family and Children's Services' awarding of grants. We recommend that service agreements be used for all grants, whether they are with respect to legislated or non-legislated services. We suggest the agreements also address:

- service level standards, clientele to be served, and geographic areas in which services are to be provided;
- program standards to be followed (including legislation, regulations, Department policy and procedures and requirements of other Acts not administered by the Department of Community Services);
- if appropriate, specific referral to confidentiality requirements of the Children and Family Services Act and the Young Offender's Act;
- staffing standards and staff qualifications;
- requirement for an appropriate governance and internal control structure;
- annual budget, including its timing, content and format;
- financial and non-financial information, statements and reports to be submitted to the Department (including frequency and timing); and
- annual reporting requirements.

Payments to Funded Organizations

4.26 *Responsibility for grants and funded programs* - In a previous audit of the Department of Community Services, we stated that "*a major decentralization of program responsibility to the regions is underway. The regions will have greater decision-making authority and responsibility for programs, while head office will have responsibility for areas such as policy, monitoring and control, and standard setting.*" (1995 Report of the Auditor General, page 56, paragraph 4.61) During this audit we noted that Family and Children's Services' various grant programs are being administered by either the Division or regional offices. The Division is still in the process of decentralizing authority and responsibility for grant programs.

4.27 Except for a draft document related to grants to family and children's services agencies, there is no formal documentation of the respective roles and responsibilities of the Division, regional offices, and funded organizations for each grant program. This is especially important because regional offices are a separate division of the Department and do not report directly to senior management of the Family and Children's Services Division (see Exhibit 4.3 on page 66). Further, the consultants who conducted the review of the Department's residential child-caring system (paragraph 4.22) concluded "*During the course of this review it became evident that there is a lack of either clarity or understanding of the roles and responsibilities, as well as the authority, of some of the various participants in the residential child-caring system.*" However, they also stated "*it should be noted that many of the relationships between people involved in the residential child-*

caring system are excellent and many of the roles and responsibilities are clear, at least in some areas." (Garfat and Charles, page 42) We recommended that the Department expand its work on defining roles and responsibilities to include each of its grant programs.

4.28 *Approval of grants* - Grants are renewed annually. While requirements varied among the programs examined, organizations are generally required to submit an annual grant renewal application with a proposed budget for the upcoming fiscal year and audited financial statements for the previous fiscal year. This documentation is reviewed by Department staff prior to authorizing a grant.

4.29 The review of grant applications does not appear to always include an assessment of whether funded organizations' services are consistent with the overall goals and objectives of the Department. Also, although all funded organizations submit budgets and financial statements, there are inconsistencies in the degree of attention given to them by Department staff. A lack of staff with financial education and experience was cited as one reason for the inconsistency in this area. We also noted there are no written guidelines to direct Department staff in their review of this information. We believe detailed analysis of organizations' budgets and audited financial statements would help determine if they are operating in an economic, efficient and appropriate manner. Further, we believe guidelines would ensure completeness and consistency in the review process.

4.30 Payments to organizations are based on their approved budget and are made on a monthly, quarterly, semi-annual or annual basis. Payments are made only after they have been approved by the program administrator, or by senior staff in the Division or regional offices.

4.31 Once funding has been approved, a letter is forwarded to each organization outlining the amount of the grant. For the 2000-01 fiscal year, most organizations were not informed of the approved grant until October 2000, five months after the beginning of the fiscal year. We were informed that similar delays had occurred in previous years. When such a delay occurs, organizations usually receive preliminary funding based on the previous year's authorized grant. Adjustments are made if the current year's authorized grant is different from the previous year's. However, such delays in approving grants make it difficult for organizations to manage their resources, especially if the amount of the grant is less than the amount requested.

Monitoring of Funded Organizations

4.32 Department staff monitor funded organizations throughout the year by way of meetings and other forms of communication. Because family and children's services agencies provide legislated services on behalf of the Department, communication with them is more structured. All family and children's services agencies submit monthly financial reports which are reviewed by regional office staff, and there are regular meetings between staff of the agencies, regional offices and the Division.

4.33 This level of communication is generally not found in the other grant programs. However, some funded organizations are subject to program review and/or regular licensing and inspection. Section 10 of the Children and Family Services Act states *"The Minister or a person authorized by the Minister may enter, inspect and evaluate an agency and examine the records, books and accounts of the agency."* A similar provision is contained in Section 8 of the Day Care Act. For organizations that are not funded under these Acts, the Department's right of access is conveyed either in the Department's policies or informally through discussions with the organizations. We recommended that the Department have its right of access established by way of service agreements in those cases where it is not established by legislation or regulation.

4.34 *Licensing and inspection* - The Department has a legislated mandate to license and inspect certain facilities operated by funded organizations. Under Section 15 of the Children and Family Services Act, the Department annually licenses and inspects 31 residential child-caring facilities. Under Section 4 of the Day Care Act, the Department annually licenses and inspects 200 full-day day care centres and 31 child development centres. There are 135 part-day day care centres that are licensed and inspected every two years.

4.35 We found the Department's inspection process to be comprehensive. It consists of the completion of licensing forms by funded organizations and the onsite inspection and completion of inspection forms by staff of the Department. We observed that the forms addressed all key requirements of the Department's legislation, regulations, policies and procedures. A report is prepared for each inspection, and appropriate and timely follow-up is taken to ensure deficiencies observed during inspections are corrected.

4.36 We noted one difficulty related to the Department's licensing and inspection function. In order to operate a residential child-caring facility or a day care centre, an organization must have annual fire and health inspections. We observed that such inspections are not always performed before a licence expires. In such situations, the Department issues conditional operating licences until the inspections are completed and any deficiencies reported are corrected.

4.37 *Program reviews* - We found that regular program reviews are conducted only on child welfare agencies. There are 19 child welfare offices located throughout the Province, of which six are district offices of the Department and 13 are non-government family and children's services agencies. Under Section 11 of the regulations to the Children and Family Services Act, the Department conducts evaluations of all these agencies to ensure compliance with Provincial standards and guidelines.

4.38 The evaluation process consists of a self-evaluation by the agency, a survey of groups and individuals who work for or have contact with the agency, a site visit by Department staff during which various case files are reviewed, and documentation of the results in a written report. We found that the forms and reports are comprehensive and address key requirements of the Department's legislation, regulations, policies and procedures. Appropriate and timely follow-up action is taken to ensure deficiencies noted are corrected.

4.39 The Department tries to conduct an evaluation of each agency every five years. At one time, the evaluations were conducted on a more frequent basis, but they were scaled back in response to budgetary pressures. Also, based on our examination, not all agencies are being evaluated within the current five-year cycle. Due to the nature of the responsibilities of the family and children's services agencies, and the significant amount of funding provided to them, we recommended that each agency be evaluated at least once every three years.

4.40 Generally, a program review is performed on one or two day care centres each year. Organizations which operate early childhood intervention programs, transition houses, and men's treatment programs are not subject to regular program reviews. Organizations that receive discretionary grants from the Department are also not subject to regular program reviews. If the Department becomes aware of problems in the operation of an organization or with the programs and services provided, the Department can conduct a special program review, commission an external review by program experts, or have an examination performed by its Audit Services Group.

4.41 The Audit Services Group performs periodic audits on organizations funded by the Department. Whereas certain of these audits are the result of concerns expressed by Department staff, the Group is also free to select organizations for audit based on its own criteria. We found the

process used to report audit findings and ensure recommendations are implemented to be reasonable. However, the Audit Services Group has only conducted six assignments for the Family and Children's Services Division since April 1, 1999. Considering the total number of funded organizations (see Exhibit 4.2 on page 65), few are subject to audit by the Department.

Program Management

4.42 We found that program managers in the Department receive timely, relevant and sufficiently detailed financial reports to assist them in the management of grant programs. Financial information is reported according to district office and is summarized on a regional and Provincial basis. However, we believe senior management of the Family and Children's Services Division do not receive sufficient financial information and analysis to identify trends and issues which should be addressed on a Provincial basis. The Department is developing a new financial analysis and reporting system which should provide senior management of the Division with better information on the expenditures of family and children's services agencies. However, there will still be a weakness in reporting other expenditures to Division senior management.

4.43 We believe outcome measures are important to ensure the quality of any program. Well-defined outcome measures assist in determining if a program is achieving its intended purpose. We observed that various statistics are generated for the individual grant programs, but few outcome measures are established and reported.

Other Observations

4.44 *Residential child-caring facilities* - The Department provides funding to 31 residential child-caring facilities. As a result of concerns related to the operation of these facilities, the Department commissioned external consultants to review the residential child-caring system and prepare a proposal for renewal and redesign (see paragraph 4.22).

4.45 Some of the factors which the consultants identified as leading to the review were:

- *"a number of residential programs in the province were experiencing difficulties,*
- *a high number of youth were being discharged prematurely from programs because of a growing inability of the programs to meet their needs,*
- *there were numerous empty beds in the province,*
- *a growing number of youth had to be placed outside of the province because of the inability of the current programs to accommodate their needs*" (Garfat and Charles, page 5)

4.46 Some of the findings and recommendations contained in the consultant's report are consistent with those reported in this chapter. There are two issues examined in the review which we wish to highlight in our Report.

4.47 The occupancy rates of many residential child-caring facilities are significantly below the standard of 95%. An analysis prepared by the Department indicated that the cost to the Province to fund these vacant beds is $3.2 million per year. There are numerous reasons why this situation has occurred. The consultants noted

"In our opinion, the occupancy of a program is not effected simply by the issue of funding. It is, in fact, complicated by matters such as clarity of mandate, the characteristics of the young people requiring placement, sufficient referrals, staff knowledge skills and abilities, alternative intervention services available, appropriate case planning, the continuum of services, the presence or absence of support services, and the physical facility, to name the most obvious.[sic]" (Garfat and Charles, page 50)

4.48 The second issue relates to the placing of children and youth in out-of-province treatment programs. At the time of our audit, there were 26 Nova Scotian children and youth being cared for outside of the Province. One reason for this situation is the closure of the Nova Scotia Residential Centre in Truro and the resulting lack of a secure treatment facility for children and youth with emotional and behavioral problems. In August 2000, the Minister of Community Services announced that a new secure treatment facility will be constructed and operating in Truro by the fall of 2001. However, many of the children and youth being cared for outside of the Province are not in secure treatment facilities. The other reason this issue has arisen is the inability and/or unwillingness of Nova Scotia residential child-caring facilities to address the needs of some children and youth being referred to them. We recommended that the Department develop an action plan to address the findings contained in the consultant's report.

4.49 *Provision of services* - As previously stated in paragraph 4.26, the Department has decentralized program responsibility to the regions. A 1996 Department report identified the need to have a coordinated and multi-disciplinary approach to providing services to children and their families in the regions. Achievement of this goal is made more challenging because Nova Scotia is the only Province where family and children's services are provided by district offices of the Department as well as non-government family and children's services agencies. In all other provinces these services are provided solely by government or non-government agencies. We noted that there are advantages and disadvantages to each method of providing services, and perhaps there are advantages to having two systems of delivery. We were informed that the Department is conducting a review of how services are provided in Nova Scotia and we encouraged the Department to proceed with its review.

4.50 The Department has taken steps to deliver services more efficiently. The Children and Youth Action Committee is continuing to address a number of issues which affect more than one government department. The Committee is composed of representatives from the Departments of Community Services, Education, Health, and Justice, as well as the Nova Scotia Youth Secretariat. The Department is exploring and implementing a number of cost containment initiatives, such as having the legal work for child welfare matters done by a combination of Department of Justice lawyers and private legal counsel. A procurement process will be followed for retaining private counsel.

CONCLUDING REMARKS

4.51 Based upon the results of our testing, it is our opinion that Family and Children's Services only provides grants and assistance to non-government organizations which are eligible to receive assistance. Systems and controls are sufficient to ensure organizations receiving grants under legislated programs use the funds appropriately to address the goals, priorities and legislative requirements of the Department. However, weaknesses exist with respect to non-legislated grant programs. In addition, improvements could be made with respect to performance reporting by all family and children's service organizations funded.

Exhibit 4.1

DEPARTMENT OF COMMUNITY SERVICES
FAMILY AND CHILDREN'S SERVICES DIVISION
NET EXPENDITURES
YEAR ENDED MARCH 31, 2000

Family and children's services agencies	$ 17,410,464
Maintenance of children	16,031,870
Residential child-caring facilities / enhanced foster care	12,197,276
Day care subsidies	11,822,304
Apprehension costs	11,813,016
Voluntary care	7,612,464
Field services	6,378,745
Transition and safe houses	4,853,255
In-home support	4,582,845
Discretionary grants	1,690,233
Community placements	2,542,087
Family support	1,732,658
Healthy child development initiatives	1,370,108
Family counseling grants	1,132,637
Administration - Family and Children's Services Division	1,107,788
Small option homes	823,684
Early intervention programs	710,092
Administration - Prevention services	554,307
Summer programs	530,268
Administration - Community residential outreach	441,059
Child development centres	269,092
Administration - Family and children's services	266,983
Administration - Day care	75,925
Administration - Prevention services	71,868
Total	$106,021,028

Exhibit 4.2

DEPARTMENT OF COMMUNITY SERVICES
FAMILY AND CHILDREN'S SERVICES DIVISION
GRANT EXPENDITURES INCLUDED IN AUDIT
YEAR ENDED MARCH 31, 2000

Grant Program	Expenditures in 1999-2000	Organizations Funded
Family and children's services agencies	$ 17,453,219	13
Day care subsidies and early intervention programs (Note 1)	12,411,843	82
Residential child-caring facilities	11,091,504	31
Transition houses and men's treatment programs	4,852,068	15
Discretionary grants (Note 2)	3,042,068	41
Healthy child development initiatives (Note 3)	1,613,340	112
Family counseling grants	1,132,637	4
Total	$51,596,679	

Note 1 - Funding is provided to 67 non-profit day care centres to provide 2,600 subsidized spaces (which includes 181 spaces for children with special needs), and to 15 early intervention programs.

Note 2 - This category includes grants charged to other budget subjects within the Division.

Note 3 - Funding is provided to 67 non-profit day care centres, 15 early intervention programs and 30 other organizations.

Exhibit 4.3

DEPARTMENT OF COMMUNITY SERVICES
ORGANIZATION CHART

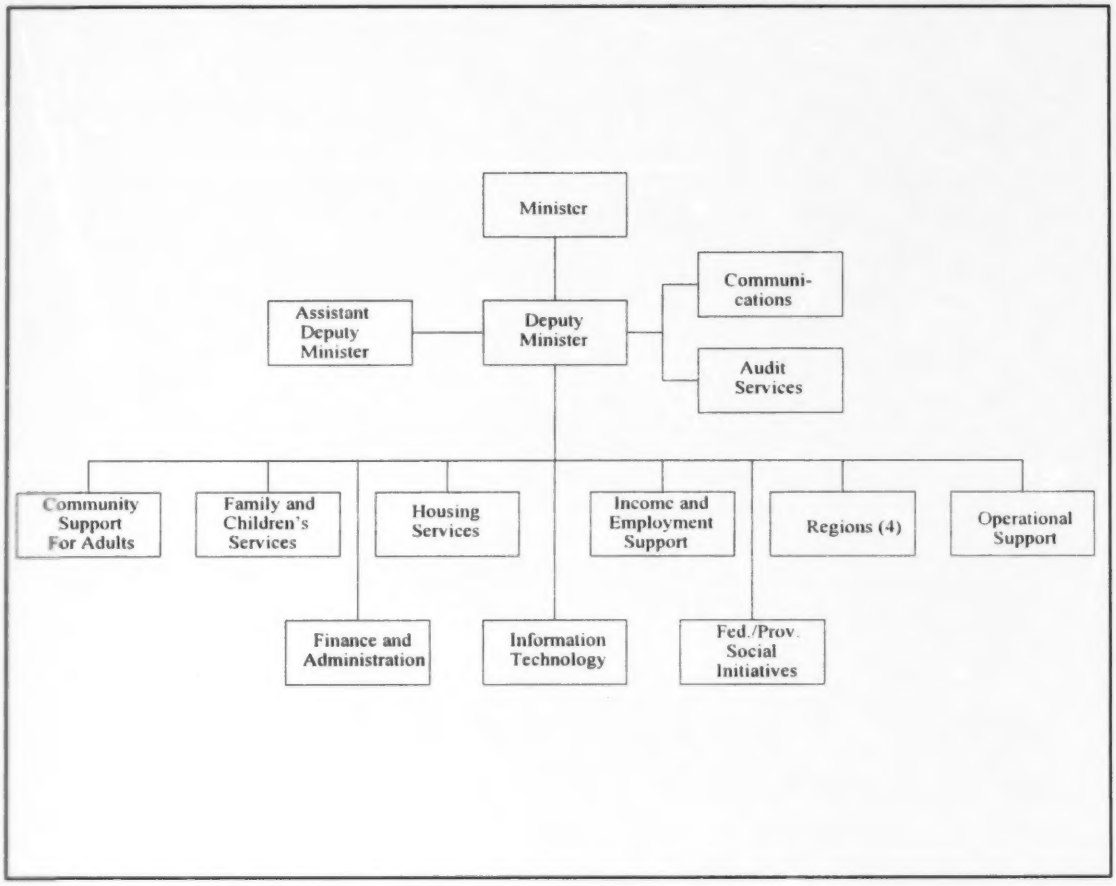


Exhibit 4.4

AUDIT CRITERIA

Audit criteria are reasonable and attainable standards of performance and control against which the adequacy of systems and practices can be assessed. They relate to the audit objective developed for an assignment, and are used to design detailed audit tests and procedures.

The following criteria were used in our audit of grants awarded by the Family and Children's Services Division of the Department of Community Services.

- The Department should have a strategy and criteria for funding non-government organizations serving families and children.
- Grants should only be made to organizations which are eligible and intended to receive funding.
- Goals, service level standards and/or performance expectations should be agreed to between the Department and the funded organizations.
- There should be regular assessment of organizations' performance in meeting the goals and expectations agreed upon, and in meeting the requirements of applicable legislation.
- Grant programs should be well managed by the Department.

5.

EDUCATION - HALIFAX REGIONAL SCHOOL BOARD AND CHIGNECTO-CENTRAL REGIONAL SCHOOL BOARD - BUDGETING AND FINANCIAL MANAGEMENT PRACTICES

INTRODUCTORY COMMENTS

5.1 The Education Act requires Regional School Boards to prepare and achieve a balanced budget. Sections 64 (2)(v) and (ab) of the Education Act require boards to *"...develop regional strategic and business plans;..."* and *"...provide for the effective and efficient management of the financial affairs of the board."* Section 64.4 states that Regional School Boards shall achieve balanced budgets: *"...in any fiscal year a school board shall not incur or make expenditures that will result in the total of the amounts of expenditures being in excess of the total of the amounts of the school board's revenue from all sources in that fiscal year."*

5.2 Budgeting is an important tool for financial management in an organization. Budgets assist an organization in planning and evaluating performance, and may help Regional School Boards to achieve the legislated objective of having no deficits.

5.3 The process of establishing an annual budget for a large public sector organization, such as a Regional School Board, can be challenging. Challenges faced by Regional School Boards include:

- *Government funding* - The amount of funding available to Regional School Boards is controlled by the Province and municipalities.
- *Revenue generation* - Regional School Boards have limited access to opportunities for revenue generation, so the focus of the budgeting process must be on balancing expenditure levels to available funding.
- *Demands for service* - There are persistent demands from the public for enhancements to services provided and opposition to any reductions in service.
- *Competing priorities* - Boards face many competing priorities. Exhibit 5.1 (prepared by the Halifax Regional School Board) illustrates some of the choices and priorities that Regional School Board members may consider when deciding on how to allocate funding.

5.4 Boards require good information on which to base budgets and other decisions. If the information supporting the budget process and related decisions is inappropriate or inadequate, then the Board may have trouble setting an appropriate budget and achieving the budget targets.

5.5 Because budgeting is an important factor in managing Regional School Board finances, we examined the process followed in preparing the 2000-01 budget, the financial management environment and the process for periodic monitoring and forecasting at two Regional School Boards - Chignecto-Central Regional School Board (C-CRSB) and Halifax Regional School Board (HRSB). We compared the budgeting practices of these two organizations and identified certain best practices or recommendations that could apply to all Regional School Boards in the Province.

BACKGROUND

5.6 *Chignecto-Central Regional School Board* - The Chignecto-Central Regional School Board was established pursuant to the Education Act of 1995-96 through amalgamation of three *predecessor Boards.*

5.7 C-CRSB is the second largest school board in the Province, responsible for 93 schools, with approximately 3.4 million square feet of space. Schools are organized into families of schools. Each family consists of a group of schools in a geographic area led by a Family of Schools Supervisor. C-CRSB has one central office and five family of school offices. At September 30, 2000, C-CRSB had a student enrolment of 26,690.

5.8 The governing Board of C-CRSB is comprised of 17 elected members. The Superintendent of Schools reports to the elected Board; with management of day-to-day operations falling under an 11-member Regional Support Team. C-CRSB has approximately 3,200 employees, including 1,572.5 teacher FTE's (full-time equivalents). Approximately 87% of C-CRSB's expenditure budget is allocated to salaries (see Exhibit 5.2).

5.9 C-CRSB has not incurred a deficit since the Board was formed. Exhibit 5.3 shows the annual surplus as a percentage of total expenditures. Budgeted revenues and expenditures for 2000-01 are $132.6 million. See Exhibit 5.4 for a comparison of budgeted and actual expenditures and Exhibits 5.5 and 5.6 for a summary of revenues and expenditures by major category. Total budgeted expenditures per pupil for 1999-2000 were $4,922 (*Statistical Summary 1999-2000*, Nova Scotia Department of Education).

5.10 *Halifax Regional School Board* - The Halifax Regional School Board was established pursuant to the Education Act of 1995-96 through amalgamation of three predecessor Boards.

5.11 HRSB is the largest school board in the Province with 144 schools, one central office, three area offices and a maintenance office. The Board maintains more than 145 buildings with over 6.5 million square feet of space. The schools in HRSB are grouped into families of schools. A family is comprised of a high school and all junior high and elementary schools that feed into the high school. There are three area teams; each serving approximately 50 schools. As at September 30, 2000, HRSB had a student enrolment of 57,782.

5.12 The governing Board is currently comprised of 14 elected members. The Superintendent of Schools reports to the elected Board. A 12-member Executive Council is responsible for the day-to-day operations of HRSB. HRSB employs approximately 5,000 staff including 3,421.1 FTE teaching positions. Approximately 84% of HRSB's expenditure budget is allocated to salary costs (Exhibit 5.2).

5.13 For the 2000-01 fiscal year, HRSB budgeted revenues and expenditures of $263.1 million (excluding expenditures financed by supplementary municipal funding). See Exhibits 5.5 and 5.6 for a summary of revenues (excluding supplementary fund revenues) and total expenditures (including supplementary fund expenditures) by major category.

5.14 HRSB obtains a significant amount of supplementary fund revenues from the municipality ($19.3 million for 2000-01). Supplementary funding is optional and expenditures from the supplementary budget support areas such as specialist staffing for arts programs, staffing for technological and French education, staffing to reduce class sizes or increase course options, among others. Exhibit 5.7 shows the breakdown of the supplementary budget by major category.

5.15 HRSB has incurred deficits each year since amalgamation. Exhibit 5.3 shows the annual deficit as a percentage of total expenditures. See Exhibit 5.4 for details of budgeted and actual expenditures. Total budgeted expenditures, including Supplementary Funding expenditures, per pupil for 1999-2000 were $4,969 (*Statistical Summary 1999-2000*, Nova Scotia Department of Education).

5.16 HRSB has undergone significant changes since amalgamation, and change is still occurring at a rapid pace. During the last 18 months, 11 of 12 senior management positions at the Board, including the Superintendent and the Executive Director of Business Services, have been filled by new individuals. The issue of Supplementary Municipal Funding has received a great deal of Board and management attention and is still unresolved, although the Board has made significant progress in this area in the current year. Since Supplementary Funding is tied to the pre-amalgamation Board structure, it causes HRSB to provide different programs and services in the regions associated with the pre-amalgamation Boards. HRSB has also been attempting to eliminate its deficits. HRSB is still undergoing amalgamation-related changes, whereas C-CRSB appears to be more stable. This difference between the Boards audited is significant when interpreting the remainder of this report.

5.17 Our most recent audit of a school board was of the former Halifax District School Board, reported in Chapter 7 of the 1994 Report of the Auditor General.

Results in Brief

5.18 The following are the principal observations from this audit.

- The timing of funding announcements is more critical for Regional School Boards than other public sector entities. If teaching positions need to be reduced, Boards have only a small window of opportunity to do this. Collective agreements require notice of termination of probationary teaching staff, effective July 31, to be given by late April. In addition, any savings from reductions in the number of teachers are not able to be achieved until the end of the school year in July, four months into the fiscal year. If the Province informed Regional School Boards of probable funding for the next several years, through multi-year funding announcements, these organizations could better plan for the future.

- Both C-CRSB and HRSB have elements of a business plan but neither Board has developed a formal plan. Additionally, the Department of Education (DOE) has not defined the format of strategic and business plans for Regional School Boards. We recommended that DOE work with Regional School Boards to establish the format for strategic and business plans. C-CRSB and HRSB could then work towards developing formal strategic and business plans as required by legislation.

- One of our objectives was to provide an overall opinion on the reasonableness of the Regional School Board budgets.

  For Chignecto-Central Regional School Board, we were able to provide an unqualified audit opinion on the budget process and the budget document (see paragraph 5.27 below for explanation of terminology). We found that, as at the date of Board approval, the 2000-01 budget assumptions used by C-CRSB are suitably supported, consistent with the plans of the Board, provide a reasonable basis for the budget, and are fairly reflected in the budget.

In the case of Halifax Regional School Board, however, we encountered an audit scope limitation because certain critical pieces of information were not available. We, therefore, were unable to give an overall opinion on the budget process and the budget document (i.e. Denial of Opinion, see paragraph 5.27 below for explanation of terminology). We are unable to provide an opinion on the process because budget assumptions such as enrolment projections and targeted class sizes were not explicitly documented as part of the budget process and approved by the Board, and certain supporting budget documentation was not retained.

- We became aware of one instance where the members of HRSB were given inadequate information upon which to base a budget-related decision. We have recommended that Board members be given information which explicitly considers both revenues and expenses when profit centres are being discussed.

AUDIT SCOPE

5.19 The objectives of this assignment were to:

- review and assess C-CRSB's and HRSB's business plans as a foundation for the budgets, and the linkages between the business plans and the budgets;
- assess the adequacy of C-CRSB's and HRSB's financial management environment;
- review and assess the processes followed in the preparation of C-CRSB's and HRSB's approved 2000-01 budgets;
- review and assess the support for the approved budgets, including supporting calculations and assumptions;
- form an opinion on reasonableness of the budgets;
- review and assess C-CRSB's and HRSB's accountability relationship with the Department of Education as it relates to their budgeting processes; and
- review and assess C-CRSB's and HRSB's processes for periodic monitoring of financial results and forecasting results to year end.

5.20 Supplementary funding from the municipality is unique to HRSB. The scope of our audit did not include a review of supplementary funding.

5.21 Our approach consisted of interviews, examination of documentation and discussions with management and staff at C-CRSB and HRSB. We also examined the supporting documentation for a number of sample items. We reviewed the audited financial statements and management letters of the financial statement auditors for each Board. HRSB and C-CRSB have appropriate processes to ensure management letter recommendations are reported to the Board. Status of implementation of recommendations is also monitored and reported to the Board.

5.22 The financial statement auditor for HRSB identified concerns regarding internal controls in the Community Collaborations and Partnerships Program. The Board engaged the auditor to conduct a forensic audit. The forensic audit was not included in our audit scope.

5.23 Some of the criteria used in this audit originated from the Education Act. The remaining criteria were extracted from the Office of the Auditor General of Canada's *Financial Management*

Capability Model (1999). This document is available on the Internet at *www.oag-bvg.gc.ca/domino/other.nsf/htm/99cmtoce.html*

5.24 The objective of the Office of the Auditor General of Canada's work was "*to build a modern framework that would describe the key elements departments and agencies need to achieve effective financial management - a framework that would also provide a basis for assessing the current state of their financial management.*"

5.25 The general criteria utilized in this assignment are summarized as follows.

- The organization should establish an adequate financial management environment.
- Regional School Boards should, in accordance with the Education Act and regulations, develop regional strategic and business plans.
- The operational financial plan/budget should be developed according to a documented procedure, based on the expected operational outputs and resource requirements.
- Budgetary assumptions and risks should be documented.
- All budgetary estimates should be reviewed for reasonableness and to ensure they are supported by adequate analysis.
- Regional School Boards should comply with the Education Act and Regulations.
- Actual operating results, achievement of milestones, and resources used should be tracked and compared against operational and financial plans to assess progress in meeting goals and objectives.
- When operational plans change, all other related plans, budgets and work products should be updated so that any financial implications are understood.

PROFESSIONAL GUIDANCE

5.26 Our examination was made in accordance with the Standards for Assurance Engagements of The Canadian Institute of Chartered Accountants.

5.27 Under those Standards, the auditor is obliged to conclude on whether the subject matter being audited conforms with the criteria and/or state any reservation the auditor may have. Effectively, the Standards (see Section 5025.78 of the Canadian Institute of Chartered Accountants' Handbook) permit the auditor the following options when reporting on the audit:

- *Unqualified Opinion* - A conclusion that the subject matter conforms with the criteria.
- *Adverse Opinion* - A conclusion that the subject matter does not conform with the criteria.
- *Denial of Opinion or Scope Reservation* - A reservation stating that the auditor is unable to obtain sufficient appropriate evidence to evaluate one or more aspects of the subject matter's conformity with the criteria.

5.28 Budgets are future-oriented and, accordingly, based on assumptions about the future such as planned courses of action, and future economic conditions. Budgets reflect uncertainty. The Canadian Institute of Chartered Accountants' guidance for auditors suggests the following with respect to the inclusion of commentary on management's assumptions in the auditor's opinion on future-oriented financial information:

> *"The opinion would state specifically whether:*
>
> *(a) the assumptions developed by management are suitably supported and consistent with the plans of the entity, and provide a reasonable basis for the forecast;*
>
> *(b) the forecast reflects such assumptions; and*
>
> *(c) the financial forecast complies with the presentation and disclosure standards established by CICA."* (Assurance and Related Services Guideline, AuG-6 Examination of a Financial Forecast or Projection included in a Prospectus or other Public Offering Document, paragraph 7)

5.29 Our conclusions from our audits of C-CRSB and HRSB (see paragraphs 5.108 and 5.109) should be interpreted with reference to this professional guidance.

PRINCIPAL FINDINGS

Department of Education's Role and Approach to Funding

5.30 The amount of annual funding available to Regional School Boards is controlled by the Province through the annual grant process. The Province determines both the Provincial component of the funding and the Education tax rate for mandatory municipal funding. The majority of the funding of Regional School Boards is unrestricted or global in nature (i.e., the Regional School Boards can allocate total funding through their budget processes to various expenditure categories without restriction).

5.31 Grants provided to school boards each year have been determined by government, after consideration of the recommendations of the Education Funding Review Work Group. In the past, this Group had representation from each of the key stakeholders in education funding - Regional School Boards, the Nova Scotia School Boards Association, municipalities and the Department of Education. The Work Group and its terms of reference were established in 1992 with annual changes in the composition of the group and modification of the terms of reference.

5.32 The Work Group recommends a level of funding based on a model and underlying funding units and rates. The current model identifies the funding for educational programs, transportation, property services, learning resources, school board governance and administration.

5.33 Following deliberations and consensus on recommendations, the Group produces a report with its recommendations. The Minister then considers the recommendations in light of the program objectives and fiscal targets of the Department, and makes a recommendation to Executive Council for decision.

5.34 The 2000-01 Education Funding Review Work Group membership was not as broad-based as in prior years and consisted of representatives of the Department of Education and Regional School Boards. The Work Group met to consider the funding model, units and rates for the 2000-01 fiscal year. Minutes of the December 1999 meeting indicate that the Province wished to achieve

savings in School Board funding, and that *"A number of the boards expressed the sentiment that if the focus was going to be on cutting funding, then boards would be reviewing their participation at the meetings this year."* In January 2000, the Department of Education informed Work Group members that meetings were postponed until further notice. There was another meeting in February 2000, and no further meetings were held until after the Budget Address on April 11, 2000. The Work Group did not make funding recommendations to the Minister as in prior years, but focused on implementation of the Province's funding reductions.

5.35 The Province announced its funding for Regional School Boards on April 11, 2000. The original level of funding announced by the Minister was deemed inadequate by Regional School Boards across the Province. Subsequently, following negotiations between the Department and all Regional School Boards, a revised funding level was announced. The final funding was formally communicated to the Boards on May 26, 2000, after two months of the fiscal year had passed and subsequent to the Collective Agreement deadline for giving notices to probationary contract teachers who would not be offered employment for the upcoming school year. During the period subsequent to April 11, the Department of Education approached the Nova Scotia Teachers Union to extend the Collective Agreement deadline for notices. The Union refused. An amendment to the Education Act was passed by the House which revoked the termination notices given prior to May 16, 2000.

5.36 The government offered some specific suggestions to Regional School Boards during the 2000-01 budget process. For example, the HRSB funding information from the Province, received in May 2000, includes a line item titled Teacher Retirements with a corresponding funding reduction of $1,479,600 when compared to the prior year's funding. Although the number of teaching positions to be reduced by attrition was not formally documented by the Province, that specific line item is equal to the annual salary of approximately 41 teachers if the retirements occurred on August 1, 2000. We believe it is reasonable to interpret this line item as a suggestion from the Province to reduce the number of teachers by at least 41 for the 2000-01 school year through retirements. The C-CRSB funding information included a similar suggestion, although the amount was proportionately lower due to the Board's smaller size. In addition, the Department provided options to teachers including early retirement, part-time work, and leaves of absence which would facilitate workforce adjustments. The final decision on the number of staff at each Board is made by the Board because (as noted in paragraph 5.30) the Provincial funding is global and not targeted to specific expenditures.

5.37 Exhibit 5.8 shows funding from the Province to C-CRSB and HRSB for each year since amalgamation.

Business Planning

5.38 As noted in paragraph 5.25 above, Regional School Boards are required to develop strategic and business plans.

5.39 *HRSB's planning process* - HRSB began a strategic planning process in 1997. The process included a planning team consisting of students, staff, board members, parents and community members. In February 1998 the team presented the first stage of a strategic plan. The plan included a mission statement, set of beliefs, objectives and strategies. By mid-1998, other planning teams presented action plans to accomplish the strategies. The strategic plan was approved with implementation to commence in September 1998.

5.40 In an attempt to operationalize the strategic plan, a System Review was started in 1999. This consisted of a planned review of 23 facets of the organization. It also identified a number of goals and objectives to be achieved. Review and reporting on the different facets was substantially complete at the time of writing this report.

5.41 The Superintendent tabled annual reports with the Board in 1999 and 2000. The 1999 report included a plan, *Students First*, which was *"intended to focus attention on the board's inherent strengths, to acknowledge the high quality effort made to prepare a strategic plan and to identify factors requiring serious review by the Board"*. The plan highlighted a number of critical issues and recommendations, the majority of which had been identified in the Board's strategic plan. *Students First* was followed up in 2000 as a focus for review and action during the 2000-01 school year. The Board approved several program and budget priorities in 1999 and 2000 flowing from *Students First*.

5.42 *C-CRSB's planning process* - In September 1996, following the formation of C-CRSB, staff conducted a comprehensive review of programs and services. This provided a regional profile of the programs and services as they existed.

5.43 Staff, students, parents, board members, business and community members participated in the development of a mission statement, set of beliefs and critical issues. The critical issues identified were used to develop a list of priorities of the Board. Planning teams translated the priorities into goals and objectives. Action plans to bring about the desired changes were developed. This resulted in a formal *Regional Plan*, adopted for implementation in January 1999.

5.44 By April 1997, following a review to ensure equity of resources across the system, a comprehensive equity plan was adopted and incorporated into the budgets for the next three years. In May 1999, 27 services were identified which required review and reconsideration of resources available to support them. The *Resource Allocation Formulae Report* is an extension of the equity review and is a direct response to the first priority identified in the *Regional Plan*.

5.45 An external facilitator has been used to evaluate the status of implementation of the *Regional Plan* and interim and final reports have been presented. The facilitator noted that progress has been made, however more time is required to fully implement the plan.

5.46 *Audit findings and recommendations* - Both C-CRSB and HRSB have elements of a business plan but neither Board has developed a formal plan. Additionally, DOE has not defined the format of strategic and business plans for Regional School Boards. Each Board has identified initiatives that will contribute to meeting their strategic objectives.

5.47 We recommended that DOE work with Regional School Boards to establish the format for strategic and business plans. C-CRSB and HRSB could then work towards developing formal strategic and business plans as required by legislation.

Description of Budget Process

5.48 *HRSB* - Due to HRSB's difficulty in achieving a balanced budget since amalgamation, the Department of Education and the Board completed a joint review of the Board's operations. This review was intended to assist the Board in its 1999-2000 budget deliberations by identifying the key cost drivers affecting the Board's expenditures. The *Cost Driver Report* was presented to the Board in June 1999 and followed up through the Audit and Finance Committee. The recommendations in the report relating to budgeting included:

- *"The Board needs to build a more rigorous challenge and review component in the budget process, and a more timely, vetted, comprehensive budget to enable Board discussion during the approval process.*
- *The budget for substitutes must include a review with Human Resources to determine how and why substitutes are employed.*

- *The 1999-2000 budget needs to reflect funding required to address EPA needs. The budget should only be adjusted when offsetting revenue sources or expenditure reductions are identified.*

- *The board must pass a budget and hold senior management accountable to implement the approved budget during the year."*

5.49 The Board's Executive Council (senior management) discussed these recommendations and developed a process to address the report recommendations and implement corrective action.

5.50 As a result of the joint review and the by-law requirement that the Audit and Finance Committee establish principles for preparation of the annual budget, a 24-point Budget Review process was established in the late summer of 1999. The process served as a timetable for completion of key outputs, identified milestones and assigned responsibilities to various individuals and committees.

5.51 The following were key features of HRSB's 2000-01 Budget process.

- December - review and approval of eleven program and budget priorities by Board.

- January - presentation of preliminary forecast of 2000-01 to the Board based on assumed funding levels from the Province, and identification of staffing adjustments at the high school level as a potential measure that could be taken to help achieve the forecasted budget target.

- March - instruction from senior management to financial planning staff to complete preliminary budget by March 31 based on the 1999-2000 budget *"with adjustments based on actual staff on payroll at February 2000 and other known factors"* as well as Board-approved program and budget priorities. Management verified FTE's and determined non-salary costs.

- March 31 - completion of preliminary budget.

- early April - presentation of preliminary budget to Committee of the Whole following senior management review.

- April 11 - announcement of funding from DOE.

- after April 11 - senior management identification and prioritization of 15 expenditure reduction areas for consideration by the Board.

- early May - presentation of revised budget to Committee of the Whole following revisions by senior management to balance the budget.

- May 26 - receipt of notification of revised funding from DOE.

- June 27 - approval of budget by Board. Approval of budget by section sub-totals for School Services, Regional Board Management, Business Services and Corporate Services.

5.52 *C-CRSB* - In August 1999, C-CRSB developed a Priorities and Budget schedule for the 2000-01 budget, including a timetable for the process, activities to be completed and assignment of roles and responsibilities.

5.53 The following were key features of C-CRSB's 2000-01 Budget process.

- August 1999 - development of priorities and budget schedule identifying and assigning activities.
- Fall 1999 - review of Resource Allocation Study and Regional Plan by senior management to identify issues and priorities.
- Fall 1999 - completion of system evaluation model with review by Board.
- early December 1999 - development of enrolment projections for the next school year.
- December 1999 - usually distribution of budget forms, directions and description of process to be followed to senior management and budget managers with a return date of January 31. For 2000-01, replaced with instruction from senior management for Co-ordinator of Budget and Audits to prepare preliminary budget based on 1999-00 budget.
- January - costing of existing levels of program and services by Co-ordinator of Budget and Audits. Application of previously approved staffing formulae.
- February - on-going discussion of proposed budget by senior management.
- February - obtain Board direction on priorities and enrolment assumptions.
- April 11 - announcement of funding from DOE.
- after April 11 - senior management develops revisions required to balance budget.
- May 26 - receipt of notification of revised funding from DOE.
- June 14 - approval of budget by Board. Approval of expenditure total.

Audit Findings - Budget Process

5.54 *Linkage of budgeting and business planning processes* - Our expectations in this area were that strategic and business plans would be reflected in the Boards' annual budgets. Initiatives identified through the longer-term planning processes should be clearly identified in the annual budget documents.

5.55 HRSB business planning documents include a strategic plan, *Students First* and System Review. The management trail from these documents, other goals and objectives, and the 11 program and budget priorities to the budget is not clear. The 15 major themes identified for expenditure reduction were more clearly linked to the budget although the linkage was not well documented. For example, the Board identified Quality Learning for All Students as its first budget priority for 2000-01. During our discussions with HRSB management, they indicated that this priority was interpreted as "direct as many dollars as possible to the classroom to achieve quality learning for all students." However, we could find no documentation that this was the Board's interpretation of this priority. There are other possible interpretations of this priority such as "achieve specific educational outcomes", or "maintain a certain staffing or pupil/teacher ratio." The interpretation of this priority is critical to understanding the budget document and was not documented in the manner we expected.

5.56 Both C-CRSB and HRSB indicated that, due to funding reductions in the current year, the emphasis was on reducing expenditures and not on the priorities developed in the strategic planning documents. However, at C-CRSB, management's budget documents in prior years highlighted linkages to the Regional Plan and the Resource Allocation Formulae Report. HRSB management informed us that they plan to improve the linkage between strategic planning and the budget for 2001-02.

5.57 *Timing of budget* - We have been advised by staff at both C-CRSB and HRSB that they are not able to present a meaningful budget prior to notification of Provincial funding. As stated in paragraph 5.35, funding was initially announced in the Provincial Budget on April 11, 2000 but final funding was not announced until May 26, 2000.

5.58 The timing of funding announcements is more critical for Regional School Boards than other public sector entities. If teaching positions need to be reduced, Boards have only a small window of opportunity to do this. Collective agreements require notice of termination of probationary teaching staff, effective July 31, to be given by late April. In addition, any savings from reductions in the number of teachers are not able to be achieved until the end of the school year in July, four months into the fiscal year. Therefore for each position reduction, a Board only reaps 8/12 of the annual savings in the first fiscal year.

5.59 Good financial management practices require that a budget be established prior to the start of the fiscal year. To enable Regional School Boards to accomplish this, they should be aware of Provincial funding earlier. If the Province informed Regional School Boards of probable funding for the next several years, through multi-year funding announcements, these organizations could better plan for the future. Management of the Department of Education indicated that multi-year funding announcements are difficult due to enrolment changes. If funding was announced for a period of years, and enrolments changed, the result could be inequity in funding among Boards. A possible solution would be announcement of multi-year funding per student, rather than total funding for each Board.

5.60 *Budget assumptions* - As with any entity preparing a budget, Regional School Boards must be aware of and define certain basic assumptions regarding expectations for the upcoming year. These include enrolment levels, the specific programs which will be offered and the method of delivery, pupil teacher ratios and related staffing, facilities operations and support staff and pupil transportation, as well as the future costs of employing teachers and support staff and of operating buildings and vehicles. The assumptions must be reasonable and supportable - obtained from past performance or from expected future economic conditions. The quality of the budget is largely dependent on the completeness and reasonableness of the assumptions.

5.61 To be reasonable, assumptions need to be consistent with the plans of the entity and reflect the expected economic effects of anticipated strategies, programs, and actions, including those being planned in response to expected future economic conditions. To be supportable, assumptions need to be based on the past performance of the entity itself, the performance of other entities engaged in similar activities, studies or any other sources that provide objective corroboration of the assumptions used. The process used to develop assumptions should be based on relevant information that is reasonably available at the time the budget is prepared.

5.62 The documentation of assumptions used in the preparation of the budget is important to the auditor. The following extracts from the Canadian Institute of Chartered Accountants' Assurance and Related Services Guideline AuG-6 Examination of a Financial Forecast or Projection included in a Prospectus or other Public Offering Document illustrate the importance of projections to the auditor:

"The public accountant [auditor] *seeks evidence to establish that management has identified and supported all assumptions necessary for the preparation of the financial forecast and whether these assumptions, individually and taken as a whole, provide a reasonable basis for the financial forecast.* [31]

...Failure to disclose all significant assumptions would prevent the auditor from issuing an unqualified opinion..." [18]

5.63 As part of the initial steps toward developing the budget, C-CRSB senior management define, document and present assumptions to the Board for their approval. These assumptions are also explicitly stated in the approved budget document.

5.64 Certain preliminary budget assumptions were presented by HRSB management to the Board in January 2000. In addition, HRSB management indicated that other significant budget assumptions were verbally presented to the Board. Management indicated that this presentation took place at a full-day, offsite budget meeting between Board and management in May 2000. However, no documentation of the presentation and approval process was prepared. The assumptions are not disclosed in the budget document, and the Board-approved formal budget process does not explicitly require the preparation and approval of assumptions. We recommended that the Board require preparation and formal approval of assumptions as one of the first steps in its budget process.

5.65 One of the most important factors which will affect a Board in the next year is the level of student enrolment. Projected student enrolment is important because it can have an impact on the number of staff required. The Department of Education and Regional School Boards prepare enrolment projections. We expected that Regional School Boards would clearly examine and integrate expectations and assumptions in this area as part of the budget process.

5.66 C-CRSB senior management project student enrolment for the upcoming school year and provide this information to the Board. Senior management applies a teacher staffing formula to determine teacher requirements based on projected enrolments. The teacher staffing formula is unchanged since it was approved by the Board several years ago. Any revisions to the formula require Board approval. The teacher staff requirement is presented to the Board for approval during the budget process.

5.67 HRSB also prepares detailed projections of student enrolment. However, the enrolment figure used in budget preparation is based on current students plus expected primary students. This would not include the impact of factors such as new housing developments and other demographic changes.

5.68 HRSB has a staffing formula which is included in a Management Manual and all principals have a copy. However, it has not been formally approved by the Board. HRSB's budget process begins with assigning an estimated cost for the upcoming year to the current staffing level. During the process, the Board considers possible funding reductions. Alternative staffing scenarios are costed, resulting average class sizes are considered, and management compares class sizes with the formula to determine if the reductions are acceptable. Management has indicated that Board members have a common understanding of the staffing formula which becomes the basis on which both management and Board members assess the acceptability of the resulting average class sizes.

5.69 During the 2000-01 budget process, we saw evidence that the Halifax Board members considered detailed information on high school class sizes resulting from various staff reduction scenarios. High school staffing had been specifically identified as one potential option for meeting the funding targets and was studied in detail. However, the Board was not provided with formal, detailed information on class sizes at other grade levels. Management informed us that this

additional information had been provided verbally to Board members at an offsite meeting in May 2000, and that management intended to formally present the information to the Board at a later date but that it became somewhat redundant after the Province suggested the number of positions to be reduced (see paragraph 5.36 above).

5.70 We recommended that HRSB improve the quality of the enrolment assumptions used during the budget process, and that the staffing formula be specifically approved to ensure a common understanding of the Board's objectives related to class sizes, and the acceptability of the class sizes resulting from the current budget.

5.71 *Documentation and support* - We selected a sample of budget expenditures from each of the Boards to examine documentation, verify calculations and assess the adequacy of the supporting analysis for the budget.

5.72 At C-CRSB, the detail supporting the preliminary budget was adequate. There was also a good management trail from the preliminary budget to the final budget approved by the Board. We were able to verify the budget calculation based on the documentation provided. The support for the final budget was adequate.

5.73 HRSB did not retain detailed support for the preliminary budget calculations. We had difficulty following the documentation trail from the preliminary budget to the approved budget summary. It was necessary for staff to re-create documentation to enable us to verify the budget calculations. We believe that support for the final budget should be retained because it can provide useful information and explanations if actual performance is different from the budget, and it can provide useful input to the subsequent year's budget process.

5.74 At HRSB there was inadequate supporting analysis in some cases, and strategies and plans for achieving budget targets were not always documented. For example,

- Although 1999-2000 actual heating fuel costs exceeded budget by approximately $500,000, the heating fuel budget for 2000-01 was set at approximately the same amount as the 1999-2000 budget. We did not see strategies, plans or supporting analysis to achieve this level of expenditures.

- Actual costs in 1999-2000 for maintenance supplies and materials were $4.3 million compared to the budget of $3.1 million. The 2000-01 budget was again set at $3.1 million with no clear strategy or plans in place to achieve this level of expenditure.

5.75 C-CRSB and HRSB do not have documentation standards, retention schedules, requirements for formal sign-off or independent quality control reviews for the final budget and its supporting detail. Such controls are necessary to provide for quality and integrity of the budget document.

5.76 Both Boards use current year salary data to support the salary budget for the upcoming year. Current year costs are adjusted for average increases expected as a result of collective agreement provisions. If funding is less than required to maintain the status quo, the number of position reductions is calculated based on the average teacher salary for the Board. Although these methods do not yield an exact salary cost for the upcoming year, the calculated cost should be materially correct.

5.77 *Information to Board* - Our audit scope included a review of Board and Committee minutes and information presented to the Board. Good information is necessary to support good decision making. Board members should have current year comparative information to enable them to judge the reasonableness of budget requests.

5.78 The budget document presented to the C-CRSB contains the budget for the upcoming year, current year budget and current year projection of actual costs to year end.

5.79 The budget document presented to HRSB for approval contained only the budget for the upcoming year and current year budget. Senior management indicated that it was not practical to include current year actual or projected financial data on the budget document because of changes in reporting format and limitations of the financial reporting system. This information had been included on the budget document in the past and management decided to eliminate it for one year only. The Board, therefore, would need to consult other documents to obtain necessary comparative information. Management have informed us that they intend to re-establish this for fiscal 2001-02.

5.80 HRSB has a formal process for presenting reports to the Board. A standardized format indicating the purpose, background, content, cost, funding, timeline and recommendations is completed for each submission. This format was utilized when preparing presentations on the 15 areas selected for expenditure reduction.

5.81 We became aware of one instance where the members of HRSB were given inadequate information on which to base a budget-related decision.

5.82 The Board's Executive Council approved a report for submission to the Board (dated April 10, 2000) which requested approval of the downsizing and termination of aspects of the Community Collaboration & Partnerships Department which had been responsible for delivery of programs including Summer School, Continuing Education, Adult English as a Second Language, and EXCEL (a child care program available to working parents). The report indicated a cost savings of $1,611,000 if the recommendations were followed, and indicated an expectation that "*... most of the expense associated with programs can be reduced while the revenue can be retained*" (Community Collaborations & Partnerships Report, p. 5).

5.83 The Board subsequently voted to accept the report's recommendations. However, the 2000-01 budget documents indicated that the termination decision had decreased expenses by $1.6 million, and related revenues were also expected to decrease by $1.3 million for a net saving of $0.3 million (in comparison to the prior year's budget) rather than the $1.6 million that had been reported to the Board.

5.84 The Community Collaborations & Partnerships Department was different from most other Board departments in that it generated both costs and revenues (i.e. it was a *profit centre* as opposed to a *cost centre*). The appropriate accounting for profit centres would include explicit consideration of both costs and revenues, and we recommended that information going to the Board be prepared in accordance with appropriate profit centre accounting practices.

5.85 The Superintendent indicated to us that there were factors in addition to the April 10 report to the Board associated with the decision to terminate the Community Collaboration & Partnerships Department. These factors included a potential legal case (see paragraph 5.22 above), and a recognition that some of the Department's programs served adults and were, therefore, outside the Board's primary mandate. Management indicated that HRSB wished to focus on provision of services to students in grades primary to twelve, rather than services to adults provided by the Community Collaboration & Partnerships Department.

5.86 *Best practices/recommendations* - Best practices for Regional School Boards in preparing annual budgets include:

- Assumptions used to prepare the budget should be developed in the early stages of budget preparation. Senior management should provide these to the Board for their

consideration and approval. The assumptions should be disclosed as part of the budget document.

- Since staff is the largest Board expenditure, we recommended that Board members be directly involved in determining the number of staff and average class sizes for the upcoming year. Staffing formulae should be developed and approved by the Board. Variations from the staffing formulae should be reported to the Board.

- Enrolment projections should be provided to the Board for review as part of the initial stages of budget preparation.

- Linkages from long-term and operational plans to budgets should be clear and well documented.

- Regional School Boards should establish documentation standards, retention schedules and independent quality control reviews of the final budget, supporting analysis and supporting detail.

- Budget documents provided to the Board should include a projection to year-end of current year costs.

- Budgets should be completed and approved prior to commencement of the fiscal year.

- Regional School Boards should continue to request funding targets from the Province prior to the commencement of the fiscal year. Both annual and multi-year targets should be requested.

Information Systems

5.87 The Department of Education has implemented a financial reporting system for all school boards, known as SRB. Both C-CRSB and HRSB use the SRB system.

5.88 C-CRSB and HRSB are both dissatisfied with the information provided by SRB. Regional School Boards and DOE recognize there are limitations in the current financial information systems and are presently involved in a review of alternate information systems. One of the limitations is the difficulty in incorporating prior year comparative data.

5.89 C-CRSB utilizes a feature of SRB that does not allow the entry of purchase orders once expenditures have reached the budgeted amount. This feature allows staff to better manage their budgets. Staff are required to transfer funds from other budget areas for which they are responsible to cover an over-budget account. HRSB use of this feature is limited to managing school instructional supplies and materials accounts.

5.90 Neither C-CRSB nor HRSB have an adequate Human Resources information system. Adequate systems would allow for timely reporting of key data such as FTE's, statistics on sick leave and use of substitutes which would facilitate budget costing and monitoring.

Description of Monitoring and Reporting Process

5.91 C-CRSB prepares monthly financial statements which are forwarded to the Regional Support Team and the Finance and Human Resource Committee of the Board. These statements show

expenditures for the current month, year-to-date expenditures, annual budget and any budget transfers that are required. Finance staff at C-CRSB also provide more detailed reports to budget managers including similar information to the monthly financial statements as well as outstanding commitments and percentage of budget utilized to date.

5.92 HRSB prepares monthly financial statements in detailed and summary format. The detailed reports are forwarded to the Board's Executive Council for their comments and discussion. The summary report is first reviewed by the Audit and Finance Committee and then the Board. The reports show actual expenditures for the current month and year-to-date, annual budget and percentage of budget utilized to date as well as projected expenditures to year-end.

Audit Findings - Monitoring and Reporting Process

5.93 *Monthly financial statements* - Neither C-CRSB nor HRSB include prior year actuals in their monthly statements for comparison with current results. Management of both Boards have informed us that this is a problem with the financial system and that they are exploring options to include prior year's expenditures in future reports.

5.94 Budget managers at C-CRSB can access financial information through the Board's financial software. This access combined with the detailed monthly reports from Finance helps to provide staff with the information they need to closely monitor their budgets.

5.95 HRSB adopted a new reporting format for 2000-01. Users note that the current reports are a considerable improvement over prior years. The new format provides more detail and is prepared on a more timely basis.

5.96 *Variance explanations* - Neither C-CRSB nor HRSB have a formal policy for preparing budget to actual comparisons and related variance explanations. There are no written guidelines defining criteria for what is considered a significant variance.

5.97 Under C-CRSB's current practice, monthly statements are reviewed by Finance for unusual items and the appropriate budget manager is contacted for an explanation where necessary. These explanations are not formally recorded and included in the report that goes to the Finance and Human Resource Committee. Including written variance explanations in the monthly financial statements would strengthen the role of the Finance and Human Resource Committee by providing additional information.

5.98 HRSB prepares written variance explanations for the summary level report going to the Board. The detailed monthly financial statements are reviewed by the Board's Executive Council (i.e., senior management) and variances are discussed but written explanations are not prepared. Providing written explanations for variances at the detailed level would provide a good overview of the financial implications of issues HRSB is dealing with, a record of the explanations to refer to in the future, and backup for explanations in the Board report.

5.99 In prior years, Business Services staff at HRSB prepared the variance analysis for all accounts. For the current year, HRSB plans to involve other staff in providing explanations.

5.100 *Distribution of reports* - Finance staff at C-CRSB distribute monthly financial statements to members of the Regional Support Team, Family of Schools Supervisors and the Finance and Human Resource Committee. More detailed reports are distributed to budget managers. In our discussions with staff at C-CRSB, these reports appeared to be utilized by those with budgetary responsibility to help manage budgets and identify problem areas.

5.101 HRSB distributes monthly reports from Business Services to the Executive Council of the Board, the Audit and Finance Committee and the Board. It is important to involve staff who manage day-to-day operations in reviewing financial information and preparing related variance explanations. In our discussions, we found that certain staff below the senior management level are involved in reviewing the reports while others are not. We recommended that all staff who have budgetary responsibilities be involved in reviewing financial information and preparing variance explanations. This could be achieved by distributing the report directly from Business Services to appropriate staff and establishing and communicating criteria for the provision of variance explanations.

5.102 *Projections/forecasts* - We believe that regular monthly financial statements, including forecasts to year end, are necessary for appropriate monitoring of financial performance. This process must begin early in the financial reporting schedule to allow remedial actions to be taken.

5.103 C-CRSB's forecasting process usually starts in September with Finance staff reviewing account summaries on a weekly basis and contacting budget managers to discuss areas of concern. The first forecast document including projections to year-end is usually produced in October or November. For the current year, the first forecast should be available in December. Various staff with budget responsibilities are involved in providing information to Finance to determine projected expenditures for the remainder of the year.

5.104 For HRSB, we reviewed two financial reports prepared during the current year which request staff to inform Business Services of any changes in projections to year-end. In our discussions, we noted that certain staff at HRSB are not aware they are expected to update these projections. We are also concerned that staff feel it is early in the school year to be involved in forecasting to year-end. Business Services should stress the importance of forecasting and projecting financial results to year-end throughout the year. Delaying the update of projections to year-end until December or January could mean that corrective measures will have little impact on expenditure levels for that year.

5.105 *Best practices/recommendations* - We have identified the following best practices for Regional School Boards in monitoring and reporting financial information:

- Monthly financial statements should provide a sufficient level of detail to allow staff to manage their budgets. Reports should include year-to-date and current month expenditures, annual budget, percentage of budget utilized to date and prior year's actual expenditures.

- Regional School Boards should establish and communicate policies governing budget to actual comparisons and set out criteria for the provision of written variance explanations.

- Staff with budgetary responsibilities should be involved in reviewing financial reports and providing written explanations for unusual items.

- The monthly financial statements prepared for senior management and the Board or Finance Committee should include written variance explanations.

- Regional School Boards should start the forecasting process early in the fiscal year. It is important to ensure that accurate projections to year-end are available on a timely basis so that corrective measures can be taken where necessary.

- Staff with budgetary responsibilities should be involved in developing forecasts or projections to year-end to ensure completeness and accuracy.

CONCLUDING REMARKS

5.106 Although the Province originally announced Regional School Board funding levels on April 11, 2000, the amounts were deemed inadequate by Boards. Negotiations followed, and the final Provincial funding was announced on May 26, 2000. This late date caused significant difficulty for those responsible for the financial management of school boards. The Province should announce final funding prior to the beginning of the fiscal year to give the boards time to make any necessary staffing adjustments prior to the deadline specified in the Collective Agreement. School Boards should continue to request the Province to make this announcement earlier. Because Board funding is not finalized by the beginning of the year, Boards do not begin monitoring their actual financial performance in relation to the budget early enough. Boards begin to look seriously at actual results being achieved for the year in September when almost half the fiscal year is gone. This monthly monitoring process should begin as soon as the fiscal year begins.

5.107 Both Halifax and Chignecto-Central Regional School Boards are relatively new organizations. Both are still struggling with some of the issues associated with amalgamation. However, for the Halifax Regional School Board, the remaining amalgamation-related issues are more significant primarily because the future of Supplementary Municipal Funding remains unresolved. The resolution of Supplementary Funding depends on other levels of government, and is not an issue that HRSB can resolve alone. In addition, HRSB has been attempting to eliminate its deficits, and has undergone significant management changes over the past 18 months including new incumbents in 11 of the 12 senior management positions. These changes and outstanding issues have meant that HRSB management and staff have not had as much time as they would like to implement improvements to their financial management processes.

5.108 For Chignecto-Central Regional School Board, we were able to provide an unqualified audit opinion on the budget process and the budget document (see paragraph 5.27 above). We found that as at the date of Board approval, the 2000-01 budget assumptions used by C-CRSB

- are suitably supported, consistent with the plans of the Board, provide a reasonable basis for the budget; and
- are fairly reflected in the budget.

5.109 In the case of HRSB, however, we encountered an audit scope limitation because certain critical pieces of information were not available to us. We, therefore, were unable to give an overall opinion on the budget process and the budget document (i.e., Denial of Opinion, see paragraph 5.27 above). We were unable to provide an opinion because budget assumptions such as enrolment projections and targeted class sizes were not explicitly documented as part of the budget process, and certain of the supporting budget documents were not retained. Much of the budget support that was not retained could be recreated by HRSB staff. Although we cannot provide an overall opinion, we are able to make the following positive comments on certain aspects of the budget document and budget process:

- The Board has approved a budget which it believes to be achievable.
- Expenditure targets have been set for major programs and functions although the focus of the budgeting process is on allocating available funds among programs and functions, rather than determining the expenditure level required to accomplish objectives.

- The budget is based on the prior year's budget, adjusted for known cost increases, specific program initiatives, and specific cuts and other measures approved by the Board as part of the budget approval process.

- There are processes in place to monitor performance in achieving budget targets.

Exhibit 5.1

HALIFAX REGIONAL SCHOOL BOARD
THE BUDGET MUST CREATE THE CAPACITY FOR EXCELLENCE

What Does a Million Dollars Buy?

- *Lunchtime supervision for 20,000 students*
- *20 more buses*
- *500 computers*
- *15 sabbatical leaves for teachers*
- *8700 days of staff release time for professional development*
- *Assistance for several hundred special needs students*
- *Reading Recovery for 200 students*
- *25 Classroom Teachers*
- *40 Educational Program Assistants*
- *40 Secretaries*
- *40 Custodians*
- *30 Maintenance Staff*
- *Upgrade the facilities of one school*

What Do You Want to Buy?

Prepared by Halifax Regional School Board

Exhibit 5.2

BUDGETED SALARY COSTS AS A PERCENTAGE OF TOTAL COSTS

$ millions

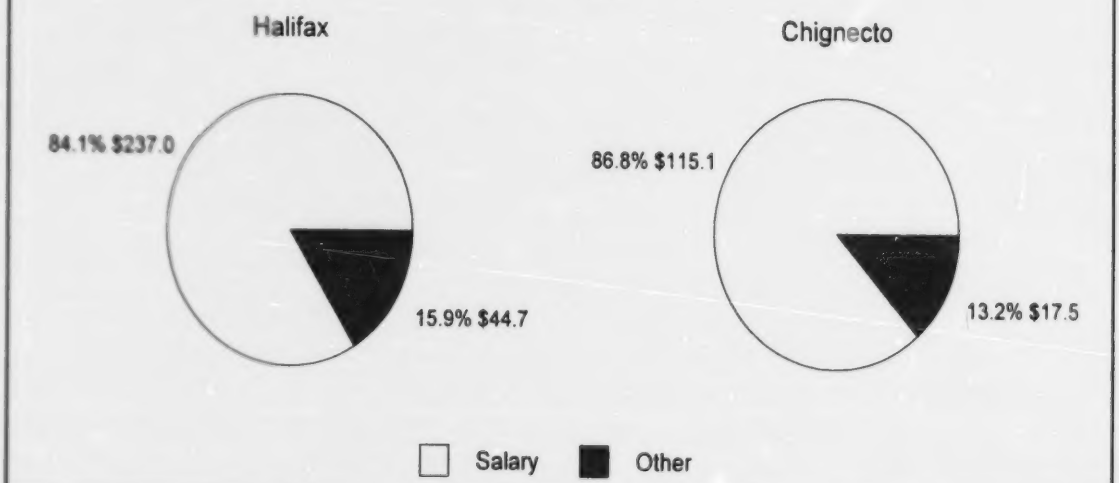


Exhibit 5.3

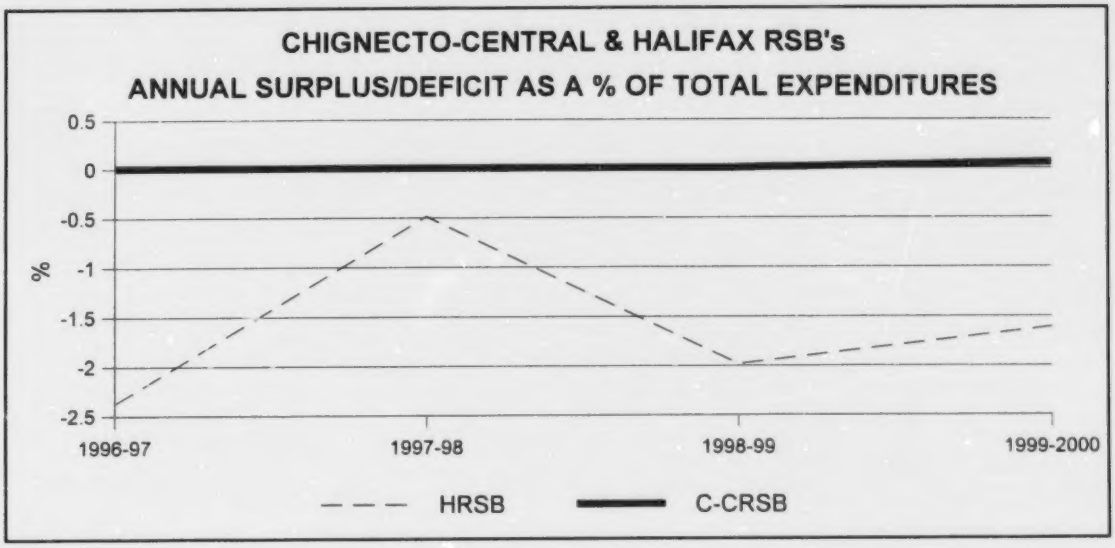
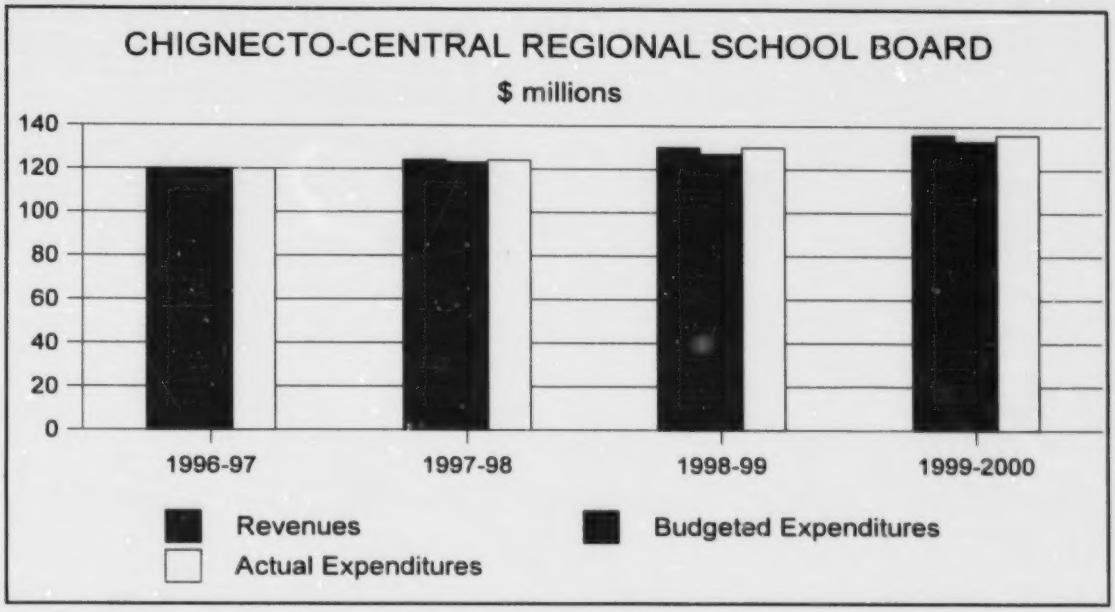

CHIGNECTO-CENTRAL & HALIFAX RSB's
ANNUAL SURPLUS/DEFICIT AS A % OF TOTAL EXPENDITURES
0.5
0
-0.5
-1
-1.5
-2
-2.5
%
1996-97
1997-98
1998-99
1999-2000
HRSB
C-CRSB

Exhibit 5.4

REVENUES, EXPENDITURES AND ANNUAL DEFICIT



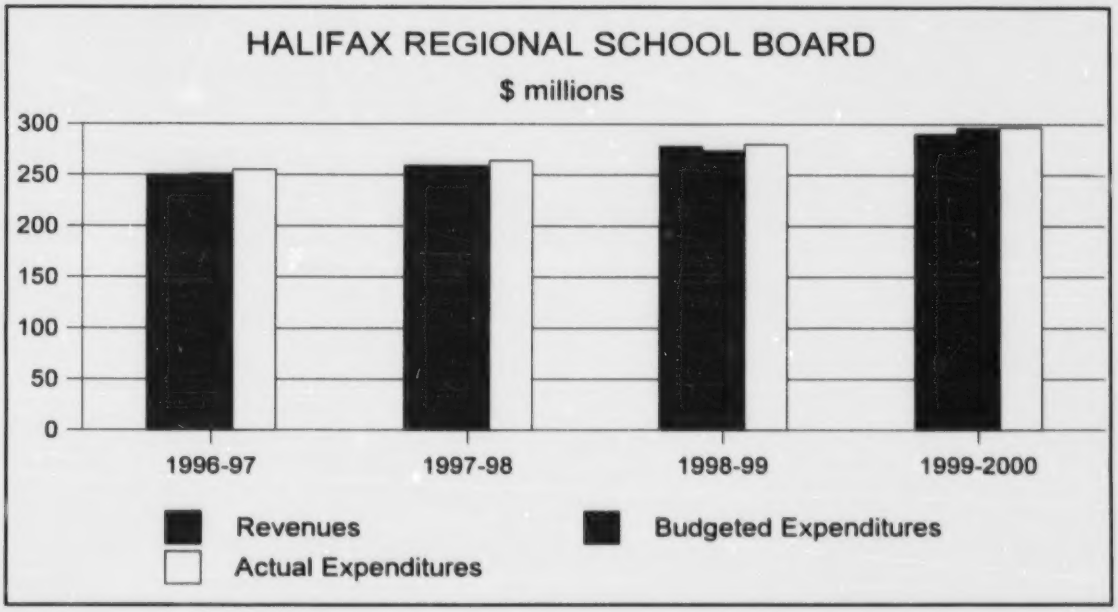
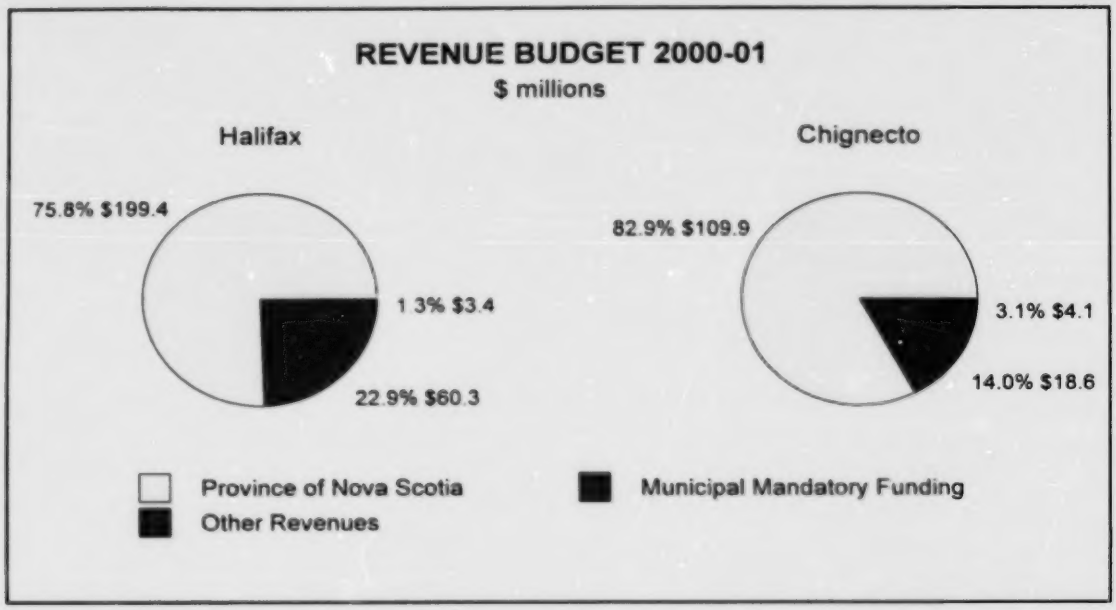


Exhibit 5.5



Note: HRSB also receives supplementary funding from Halifax Regional Municipality. For 2000-2001, the supplementary revenue budget is $19,297,000.

Exhibit 5.6

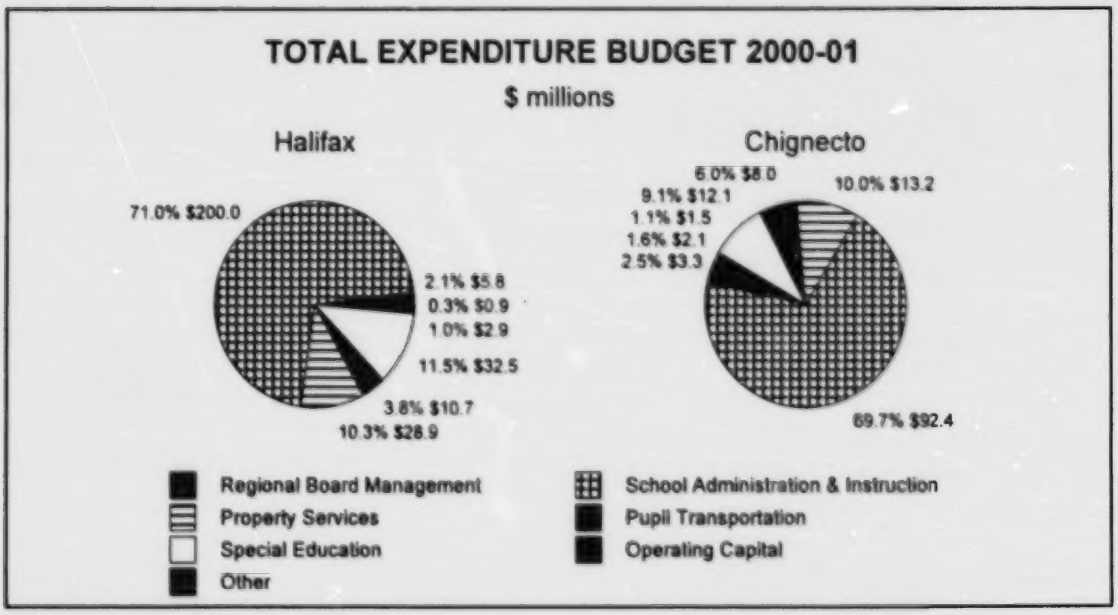


Exhibit 5.7

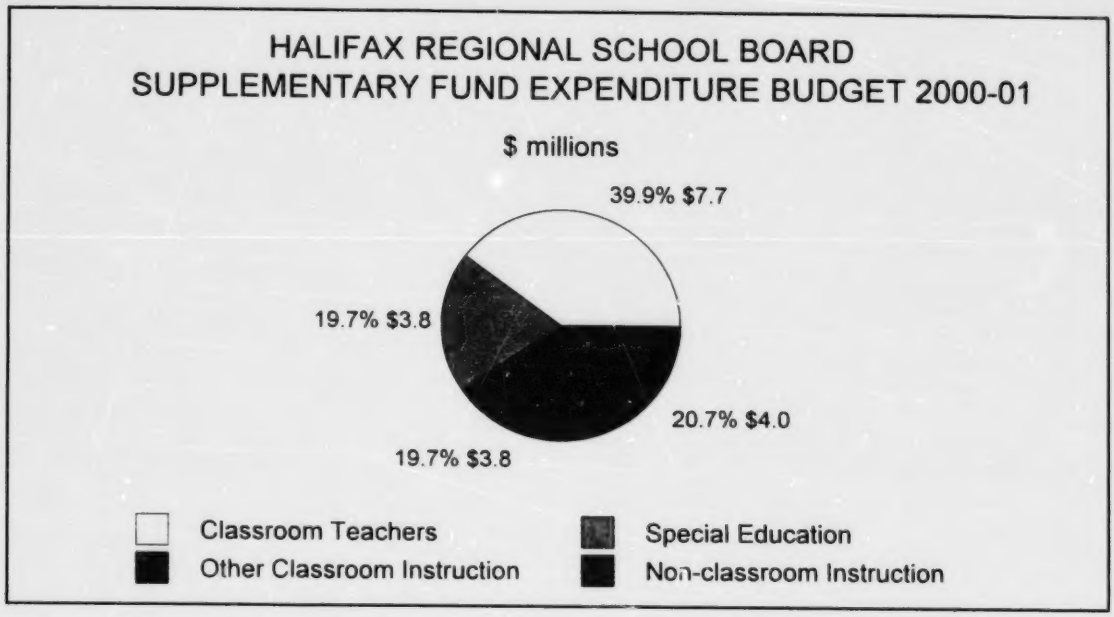
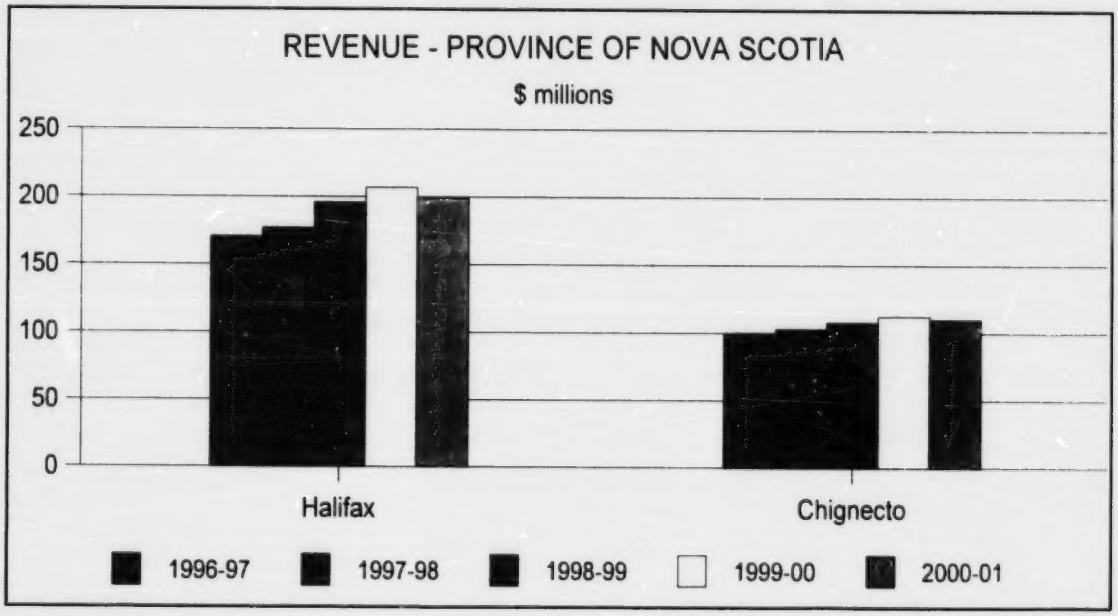


Exhibit 5.8



CHIGNECTO-CENTRAL REGIONAL SCHOOL BOARD'S RESPONSE

Although more than twice the geographic size of Prince Edward Island, the Chignecto-Central Regional School Board has consistently identified itself as a diverse, progressive, student-centered learning community. Decisions are made based on a number of well-articulated fundamental principles, through a strategic planning process, premised on the effective and efficient use of resources, while living within our fair share of available limited dollars.

The Auditor General's initiation of a review of the Board's budgeting and fiscal management practices caused - like all external audits - a degree of apprehension for staff in the system. We found staff from the Office of the Auditor General to be professional, thorough and helpful as the audit progressed. The audit was conducted on clearly identified and consistently applied principles and resulted in "an unqualified audit opinion on the budget process and the budget document". Recommendations for improvement contained within the report will be addressed quickly in consultation with the Office of the Auditor General and the Department of Education.

HALIFAX REGIONAL SCHOOL BOARD'S RESPONSE

Thank you for the opportunity to respond to your Annual Report article entitled "Education - Halifax Regional School Board and Chignecto-Central Regional School Board - Budgeting and Financial Management Practices". It is important that we provide additional information on certain observations in your report.

I am pleased that you have given recognition to the financial management challenges of school boards in Nova Scotia, as well as the particular problems facing the Halifax Regional School Board. The magnitude of the challenges facing HRSB from amalgamation in late 1996, as well as the management issues around supplementary funding, have made it particularly difficult to achieve rapid development of appropriate management information and financial control systems. Readers of this article have to place your observations in this context.

Section 5.5 states "We compared the budgeting practices of these two organizations...".

We question the value of this approach in the absence of a comparison of the provincial formula funding for the two boards. It is a fact that the Halifax Regional School Board receives considerably less funding per student than the Chignecto-Central RSB. In fact, the mandatory funding per student for the HRSB is the lowest in the province. It is important to note that the HRSB per student expenditure quoted in section 5.15 includes the supplementary funding so it is not comparable to the amount quoted for Chignecto-Central in section 5.9. The HRSB mandatory expenditure per student is actually $4,678, which is $244 less than Chignecto-Central. This additional funding permits other boards to accomplish much more than the HRSB in operations and services. This underfunding is also an important factor in the accumulation of deficits since amalgamation. It should be noted that the accumulated deficit has been eliminated, the HRSB has reduced expenditures by over $15 million in the past 15 months and we are tracking a balanced budget in this fiscal year.

You indicate that you are unable to express an opinion on the reasonableness of the HRSB 2000-2001 budget process and budget document. In section 5.109, you justify this inability to express an opinion because budget assumptions such as enrolment projections and targeted class sizes were not explicitly documented, and certain of the supporting budget documents were not retained.

We believe that, in the preparation of this particular budget, enrolment and class size projections were clearly communicated but not a critical part of ensuring we had a reasonable budget. The HRSB was faced with significant reductions in expenditures, and indeed, reduced large numbers of school based staff to balance the budget. The HRSB used enrolment projections and a staffing formula throughout the budget process and determined the amount of funding available to distribute teaching resources. The basis upon which staff is allocated to schools is provided in numerous documents and reports available at the Board office. We firmly believe that for this particular budget, projected enrolment, as defined in your report, was not a critical piece of information and would not have led to a different decision in reaching a budget for teaching staff. In fact, the enrolment projection used in the staffing process was within 4 students of actual enrolment in September.

Secondly, you reference the absence of certain budget documents. From the first draft to the final budget, there were numerous changes. We agree that retention of some of the supporting documents should be implemented, however, we believe that overall, the Board had sufficient documentation and support in which to make a budget decision. The fact that some of the documentation had not been retained, does not necessarily mean that the budget was not built on sound data. Almost 90% of the budget is for salaries and benefits and the actual staffing and benefits has tracked very close to the approved budget.

The best way to judge the reasonableness of the budget is how well the actual experience compares to the budget. We acknowledge that some of the assumptions in the 2000-2001 budget did not precisely mirror actual conditions throughout the year. One key attribute to meeting fiscal targets is conservatism and building in a reasonable cushion to reduce the impact of changing conditions. The HRSB made a conscious decision not to build in any cushion for such uncertainties. If we had, it would have resulted in additional layoffs of staff. The board was well aware of the assumptions used in building the budget and was not prepared to make further reductions that would have severely impacted on students and learning programs.

You have stated your rationale for being unable to express an opinion on the reasonableness of the HRSB budget. We don't believe the reasons given were sufficient to warrant this conclusion and the actual results will support our conclusion. During the audit, your staff acknowledged the significant improvement in the budget process, financial practices and internal management processes. We acknowledge that there is more to accomplish and plans are in place to address these matters.

You have expressed another conclusion that you became aware of one incident where the members of the HRSB were given inadequate information upon which to base a budget-related decision. The implication of this statement is that, in this instance, the administration misled the Board. This implication is offensive and we firmly believe that the Auditor General's interpretation of the Board's report on this issue is incorrect.

The report to the Board indicated that most of the expenses associated with programs administered by the former Community Collaborations and Partnerships Department could be reduced while the revenue could be retained. The reduction in the expenditures associated with the program was a fact. The approximate expenditure savings of $1.6 million is also a fact. The retention of net revenues from facility rentals and proceeds form the EXCEL program is a fact as well.

As staff of your office were informed during the audit, a concerted effort has been made by the new administration of the HRSB to address serious concerns with the management of the Community Collaborations and Partnerships Department. External auditors were engaged, internal review by the Board's General Counsel was initiated and contact with police authorities was made. Information provided from these processes resulted in disciplinary measures involving senior staff of the Board, a general reorganization of the department, significantly improved management practices, improved financial controls, and the termination of some programs and services that directly impacted on resources available to the classroom.

In our opinion, it was clear that the Board understood the full ramifications of their decision regarding Community Collaborations and Partnerships and the discussions at the Board meetings confirmed this understanding.

With regard to strategic planning, HRSB initiated a strategic planning process in 1997 and produced a vision for education and strategies intended to improve public education in this community. Unfortunately, the strategic plan lacked any significant advice on how to translate the recommendations into action. In the past 18 months, virtually every recommendation of the strategic plan has been translated into action. The SYSTEM REVIEW process has been very helpful in this regard.

In the past 18 months, the entire organizational structure of the Board has been transformed. This has resulted in significant improvements to the operation and control of the Board's financial affairs in every respect. New processes have been implemented to support budget decision-making, financial reporting and policy development. This has resulted in significant improvements to the management of the Board's resources.

We have also endeavoured to improve our communications and encourage greater public support for the efforts of the Board and its staff. We concur wholeheartedly with your statement in Section 5.4 that boards require good information on which to base budgets and other decisions. Your staff acknowledged the deficiencies in the Board's management information and financial systems which have had an impact on the quality of administrative systems and the availability of staff to provide appropriate support and achieve best practices in financial management. However, there is continual pressure to reduce administrative expenditures and this obviously has an impact on the Board's ability to address system deficiencies.

With the significant change that has been introduced in the past 18 months, we acknowledge that there are factors that need to be addressed. However, we believe that the Board has made significant strides in improving its financial management and that reasonable approaches were taken to prepare the budget in 2000-2001 and that sufficient and appropriate information was available for the Board to make an informed decision. We sincerely appreciate receiving your observations and recommendations from this audit and would extend an invitation to your office to return in two years time to observe the further improvements that will be made during this time.

DEPARTMENT OF EDUCATION'S RESPONSE

The Department of Education is pleased to respond to the Office of the Auditor General's review of the Halifax Regional School Board and the Chignecto-Central Regional School Board. As each school board is preparing its own response, our comments are limited to sections that pertain specifically to the Department of Education.

The report recommends that school board funding be provided on a "multi-year" basis. The department acknowledges that multi-year funding for school boards could offer some advantages, particularly in facilitating longer term planning by school boards. However, it is our position that this approach may have the effect of limiting the flexibility needed to allocate school board funding each year.

At present, the distribution of school board funding is determined annually by the Education Funding Committee, comprised of senior school board and department representatives. Collectively, they are tasked with identifying cost pressures emerging in public education, recommending funding levels to address those pressures, and determining how the available funding is fairly allocated to school boards.

In a multi-year approach, the Education Funding Committee would have to recommend the relative funding amounts for each school board for a number of years at a time. It would be very difficult for the committee to make adjustments in year two and beyond as circumstances change, for example, due to enrolment or other cost pressures that may disproportionately affect each board.

Such an approach reduces the responsiveness of provincial funding to address pressures arising in the system each year and, perhaps most importantly, reduces the ability to ensure a fair allocation to all boards.

We believe that the involvement and consultative input from boards in the funding process is of greater value than the advantages of multi-year planning. There are real tradeoffs involved in the adoption of a multi-year funding model, and that is the reason that other provinces in Canada operate under a similar model as Nova Scotia.

6.

EDUCATION - GRANTS TO UNIVERSITIES

BACKGROUND

6.1 The Nova Scotia Council on Higher Education (NSCHE) was established in 1989 by an Order in Council as an advisory body to the Minister of Advanced Education and Job Training. At the time we performed the audit, the Council, which was composed of public members drawn from a wide range of backgrounds, was supported by staff in the Department of Education (DOE). NSCHE's mandate included making recommendations regarding total operating and capital funding to universities and the allocation of that funding, determining whether university programs were delivered in a cost-effective manner and reviewing financial information from universities. NSCHE was accountable to the Minister of Education.

6.2 In August 2000, NSCHE was replaced by the Nova Scotia Advisory Board on Colleges and Universities (Advisory Board). The Advisory Board was established by an Order in Council to be *"...an advisory body on publicly funded post-secondary education to the Minister of Education."* The existing members of the NSCHE *"lay"* council became members of the Nova Scotia Advisory Board on Colleges and Universities with other members to be appointed.

6.3 The Advisory Board is responsible for all areas previously under NSCHE as well as community colleges and student financial assistance. We identify certain initiatives as in progress throughout this report. Advisory Board staff informed us that the Board will continue to work in these areas.

6.4 The Maritime Provinces Higher Education Commission (MPHEC) is also responsible for certain aspects of post-secondary education in the Maritimes. The Commission was established in 1974 as an agency of the Council of Maritime Premiers (CMP). Membership includes representatives from all three Maritime provinces and all stakeholder groups - government, students, post-secondary institutions and the public. In 1997, CMP ratified an *Agreement Respecting the Renewal of Arrangements for Regional Cooperation Concerning Post-Secondary Education.* This agreement notes the principal functions of the Commission as quality assurance, data and information, stimulating cooperative action, and administration of regional programs. In the past, MPHEC was responsible for prioritizing capital grant requests from universities. At the time of the audit, NSCHE had recently taken over this function.

6.5 MPHEC has no responsibility for university funding other than regional programs. Regional programs are those that are offered in one of the other two Maritime provinces but not in the home province. Funds are transferred between the provinces to offset the cost of students in these programs. Nearly 470 programs are currently designated as regional.

6.6 Nova Scotia's assistance to universities for 1998-99 amounted to approximately $181.5 million in operating grants and $4.8 million in capital grants. Exhibit 6.1 indicates the allocation of the operating grants among the 11 universities in Nova Scotia.

6.7 Base operating grants to universities had been declining in the mid 1990s (see Exhibit 6.2). In 1997-98, NSCHE made a number of recommendations pertaining to university funding in an effort to address concerns regarding funding reductions and establish some predictability of future

funding levels. A funding formula was developed based on enrolment in the various institutions over a three-year period (1994-95 to 1996-97). The formula provided for increases in annual operating grants to universities from $175 million to $198.8 million over a three-year period ending in 2000-01. The Provincial Budget, released April 11, 2000, estimated assistance to universities for 2000-01 at $196.4 million, slightly below the amount targeted in the funding formula calculation.

6.8 The 2000-01 Provincial Budget included estimated expenditures of $441,000 for NSCHE, a reduction of $500,000 from the prior year. This reduced budget has now been transferred to the Advisory Board for its operation.

6.9 Government's plan, *The Course Ahead*, tabled March 30, 2000 in the House of Assembly notes *"... we will be asking our Atlantic Canada partners to work with us in reshaping the Maritime Provinces Higher Education Commission (MPHEC) to better meet the needs of today. Much of the rationale behind the creation of the council is no longer valid, and it is time to assess the return on investment that our province receives for its contribution."* MPHEC is funded primarily through the Council of Maritime Premiers. Additional funding for special projects, such as the graduate survey, came from NSCHE. Nova Scotia's budgeted contribution to MPHEC through CMP for 2000-01 is $562,000 (an increase of 8% from the prior year). NSCHE's budgeted contribution to MPHEC special projects for 2000-01 is $25,000 (a decrease of approximately 83% from the prior year).

6.10 This audit was conducted during the first half of 2000. Prior to this audit, our most recent assignment in the university sector was a 1996 study of board governance (see page 63 of 1996 Report of the Auditor General).

RESULTS IN BRIEF

6.11 The following are the principal observations from this audit.

- The introduction of a new Provincial funding formula for universities has been a positive development over the past few years. The major benefit of the formula is that it has rationalized the allocation of Provincial funds among the universities.

- In 1996, when we last reported on universities, there were certain initiatives in progress which appeared to hold promise for improving the accountability and value-for-money of expenditures in the university sector. They included the potential cost savings identified in the Business Plan for the Metro Halifax Universities, studies on performance indicators and comparable financial information, and work on quality assurance. MPHEC and the universities have made some progress in the quality assurance area, but there has been little progress on the other initiatives.

- The accountability relationship between NSCHE and universities was not well defined. We recommended that the Nova Scotia Advisory Board on Colleges and Universities work in conjunction with the universities to develop an accountability framework that includes descriptions of roles and responsibilities, objectives, outcome and performance measures and a reporting framework. An accountability framework would help ensure that the Province obtains maximum value from its expenditure on universities.

- The university funding formula is based on enrolment figures. We reviewed documentation of NSCHE audits of university enrolment submissions and found deficiencies in the audit work performed. In addition, our review of the calculation

of the unrestricted operating grants for three universities indicated that NSCHE had incomplete documentation to support the history of the grant calculation.

- Recent studies have suggested that Nova Scotia's university infrastructure requires a large investment of funds to address the universities' capital needs and deferred maintenance backlog. Capital funding provided to the universities has been inadequate to meet the identified needs. In light of the seriousness of this problem, it is important that funding be targeted to projects that provide the most value.

- The university capital projects funded by the Province over the past few years have all been ranked as the highest priority based on a comprehensive set of criteria used by MPHEC. The amount of capital funding has been insufficient to meet the total needs identified by the university community. NSCHE had taken over responsibility from MPHEC for the capital grants process. The Advisory Board will continue in this role and will be developing its own criteria to evaluate such requests.

- Due to the significance of regional funding recoveries from the other Maritime provinces, the Nova Scotia Advisory Board on Colleges and Universities should ensure more rigorous monitoring of the accuracy and completeness of recoveries received through MPHEC.

AUDIT SCOPE

6.12 The purpose of this audit was to examine certain aspects of the Nova Scotia Council on Higher Education's management of assistance to universities. We did not visit the various universities in the Province during the audit.

6.13 The objectives of this assignment were to:

- review and assess the accountability relationship between Universities and the Minister and NSCHE;
- review and assess planning for the Nova Scotia university system;
- determine the roles of NSCHE and MPHEC;
- review and assess:
  - whether grants to universities have been calculated in compliance with the University Funding Formula, and
  - the adequacy and appropriateness of internal audit work performed to verify the institutions' enrolment submissions;
- review the controls over certain aspects of capital grants; and
- review and assess monitoring procedures performed by NSCHE with respect to regional recoveries through MPHEC.

6.14 The audit criteria were taken from recognized sources including the Canadian Institute of Chartered Accountants Criteria of Control Board's *Guidance on Control*, Institute of Internal Auditors' *IIA Standards*, Office of the Auditor General of Canada's *Discussion Paper on Alternative*

Service Delivery Arrangements and *Financial Management Control Model*, Canadian Association of University Business Officers' *Financial Reporting Guide* and the Organization for Economic Cooperation and Development's *Best Practice for Charging for Government Services*.

6.15 The general criteria used in our review are summarized as follows:

- The roles and responsibilities of the parties in the accountability relationship should be well understood and agreed upon.
- Objectives and related plans should include measurable performance targets and indicators.
- Performance against targets and indicators should be reported and monitored.
- Grants should be calculated in compliance with the university funding formula.
- There should be controls over the payment of grants including the performance of enrolment audits.
- Responsibility, accountability, and authority for the capital grant process should be established.
- There should be an adequate process to prioritize and critically review capital grant submissions.
- NSCHE should monitor regional recoveries to ensure that the amounts received and paid are appropriate.

PRINCIPAL FINDINGS

Accountability

6.16 In 1996, this Office undertook a study of Board governance at Nova Scotia universities. Our report included the following:

> *"A number of* [survey] *respondents* [board members] *were unsure of their accountability relationships to the Province and to the Nova Scotia Council on Higher Education (NSCHE). Many board members expressed a lack of clarity with respect to the role of the NSCHE. We recommend that the NSCHE, in conjunction with the universities, develop an accountability framework for universities including descriptions of roles and responsibilities (including those of NSCHE, the Maritime Provinces Higher Education Commission, and the universities), objectives, outcome measures and standards, and a reporting framework."* (Page 64, 1996 Report of the Auditor General)

6.17 A similar recommendation was also included in our 1990 Annual Report.

6.18 Since those recommendations were made, there has been little change in this area. An accountability framework for the universities and NSCHE has not been developed so we are again urging the Province to implement our previous recommendations in this area.

6.19 Universities provide audited financial information to NSCHE but there is no requirement for the provision of copies of annual plans or performance objectives. There is also no requirement for

reporting of performance information. The Executive Director of NSCHE meets periodically with the Council of Nova Scotia University Presidents (CONSUP) and individual presidents to discuss current issues and exchange information. NSCHE may try to encourage universities in a particular direction, however government does not generally provide specific direction on what universities can and cannot do. Implementation of an appropriate accountability framework would ensure that there are agreed-upon performance objectives and outcome measures for the Province's financial contribution.

6.20 Although the Province provides operating grants to the institutions (see Exhibit 6.1), these funds are spent largely at the discretion of the individual university. Annual audited financial statements are provided by the universities to NSCHE. Certain grants for alterations and renovations require that the universities file audit certificates indicating the funds were spent as intended. Other information may be requested from time to time. One recent example of this was the collection of enrolment data from all institutions to be used in calculating the funding formula.

6.21 Outcome measures with established targets are an important aspect of accountability. They provide stakeholders with a yard stick against which to measure reported results. There are no standard agreed-upon outcomes for the Nova Scotia university system to allow comparisons between universities or with predefined targets. NSCHE informed us that some of the universities use performance indicators internally. These are not reported to NSCHE. DOE has some outcome measures on their web site. Examples include: value of national research grants awarded to Nova Scotia universities, success of graduates in finding employment related to their field of study, and number of international students studying at Nova Scotia universities. There are no measurable targets for these outcomes. Consequently, it is not possible to determine whether performance in these areas is meeting expectations. Management informed us that the development of an accountability framework with appropriate performance indicators has not been achieved to the satisfaction of any Canadian provincial jurisdiction and its universities.

6.22 The newly formed Nova Scotia Advisory Board on Colleges and Universities is working with the Council of Ministers of Education of Canada and Statistics Canada to develop national performance indicators for the university system.

6.23 NSCHE recently produced its first annual report. The report provides information on the allocation of university assistance in recent years, research funding, enrolment data and other statistics. It does not include information on objectives, progress on achievement of objectives or performance indicators. NSCHE did not table their annual report with the House of Assembly. A copy of the report was sent to all members of the House of Assembly.

6.24 We recommended that the Advisory Board work in conjunction with universities to develop an accountability framework. This framework should include descriptions of roles and responsibilities, objectives, outcome measures and standards, and reporting requirements. An accountability framework would help to ensure that the Province obtains maximum value from its expenditure on universities.

The Role of MPHEC

6.25 The roles and responsibilities of MPHEC were defined in *An Agreement Respecting the Renewal of Arrangements for Regional Cooperation Concerning Post-Secondary Education* which was signed by the Ministers of the three provinces in June 1997. This agreement notes the principal functions of the Commission as quality assurance, data and information, stimulating cooperative action, and administration of regional programs.

6.26 MPHEC is accountable to CMP and to the Ministers responsible for higher education in the Maritime provinces. MPHEC is not directly accountable to the new Advisory Board; however the Executive Director of the Advisory Board is a member of MPHEC and receives budget data, annual financial statements and other information by virtue of that membership.

6.27 MPHEC is required to submit an annual report to the CMP. The Commission released a multi-year business plan in 1999 for 2000-01 to 2002-03 outlining planned activities, expected results and resources required. MPHEC is aware of Nova Scotia government priorities through government membership on the Commission. During the business planning process, MPHEC met with Ministers and Deputy Ministers. This would also help ensure MPHEC plans are consistent with those of the provinces.

6.28 *Program approval and quality assurance* - MPHEC released *A Policy on Quality Assurance* in 1999 dealing with the program approval process and quality assurance policies and practices.

6.29 Universities submit program proposals to MPHEC for approval of new or significantly modified programs. In our review of MPHEC minutes, we noted concerns where institutions operationalized programs before MPHEC approval.

6.30 Program proposals are subjected to a review which involves examination of whether programs are academically sound and whether the university has the necessary resources - financial, faculty, and other. MPHEC has made changes to this process, as outlined in *A Policy on Quality Assurance*, to allow more proposals to be reviewed annually. If a proposal meets certain predefined criteria, it goes through a cursory review process that takes about four weeks. Otherwise, an in-depth review (eight to ten weeks) is completed by the Association of Atlantic Universities - MPHEC Academic Advisory Committee. An in-depth review may also be necessary if there are outstanding issues or concerns with respect to the proposal. In 1999, 81% of New Brunswick and 89% of Prince Edward Island proposals were approved through the cursory review process. For the same period, only 50% of Nova Scotia proposals were approved through cursory review. The remaining proposals required an in-depth review due to concerns around funding and collaboration among institutions.

6.31 MPHEC has a draft document which attempts to clarify the roles and responsibilities of the Commission and the individual provinces in the program approval process. MPHEC notes that each province is responsible for determining what it is willing to support through increased operating grants, bursaries, etc. Although the Commission considers whether a university has the financial resources for a new or modified program, lack of resources will not necessarily prevent approval. In one recent program approval, MPHEC noted that funding for the program remains an issue for the Nova Scotia government to determine. Under the current funding formula there are established enrolment corridors. If enrolment exceeds these corridors, as it might with a new program, the university is responsible for funding this excess. NSCHE staff informed us that since the inception of the funding formula, no additional funding has been provided to universities for new programs approved by MPHEC.

6.32 As a regional body, MPHEC is responsible for quality assurance in Maritime universities. As noted above, the Commission released a policy on quality assurance in 1999. The policy includes two major activities:

- reviewing program proposals prior to implementation; and
- monitoring institutional quality assurance policies and procedures.

6.33 MPHEC staff have informed us that all Nova Scotia universities have some form of program quality review in place or are planning to introduce such a system.

6.34 MPHEC is in the process of setting up a Quality Assurance Committee (QAC) to review institutional quality assurance policies and practices. MPHEC staff have informed us they hope to have this committee in place by early 2000-01. The QAC will be responsible for ensuring the Commission has the most recent version of each institution's policy and for reviewing the application of the policy for adequacy.

Planning

6.35 NSCHE released a report to the Minister of Education titled *Shared Responsibilities in Higher Education* in December 1995. This document set out a vision and goals for the university system and made a number of recommendations regarding post-secondary education in Nova Scotia. In our 1996 Report, we indicated that the *Shared Responsibilities* document called on government to confirm policy in certain areas and underscored the importance of using public funds to achieve public policy goals. There is still a lack of clarity with respect to government policy in some of these areas.

6.36 Some of the more significant recommendations from *Shared Responsibilities in Higher Education* that have been addressed include: the Dalhousie-TUNS merger, three-year outlooks for university funding, and a research and development policy that is near completion. However, no progress has been made on other key recommendations including:

- Government has not endorsed a set of goals and vision for the university system.
- No action has been taken to create a joint business school in the Metro area.
- System wide performance expectations have not been developed.

6.37 As in our 1996 Report, we recommended that Government articulate their vision for the university system in Nova Scotia and review the remaining recommendations in the *Shared Responsibilities* document to determine whether action is warranted.

Review of Financial Statements

6.38 We reviewed the audited financial statements for ten universities in Nova Scotia. All institutions had unqualified audit opinions for 1998-99. The financial statements for nine of ten universities were prepared according to generally accepted accounting principles (GAAP). The one remaining institution's financial statements were prepared on a disclosed basis of accounting which differs from GAAP. In that case expenses are recorded in the period in which funds are committed regardless of when the goods are received. Exhibit 6.3 provides a three-year summary of the operating surplus or deficit of universities in receipt of Provincial funding. We did not review the financial statements for the Nova Scotia Agricultural College (NSAC). This institution operates differently from the other universities in that it is part of the Department of Agriculture and Marketing. NSCHE does not receive audited financial statements for NSAC. The policy with respect to receipt of financial statements from NSAC should be revisited.

6.39 *CAUBO recommendations* - The Canadian Association of University Business Officers (CAUBO) has a *Financial Reporting Guide* that provides recommendations for use in the audited financial statements of Canadian universities. The Guide follows GAAP as set out in the Canadian Institute of Chartered Accountants (CICA) Handbook. In cases where the CICA Handbook has alternative reporting options, a "*CAUBO preferred approach*" is noted. This recommendation is

intended to encourage consistency between universities, thereby enhancing comparability of results. At the time of the audit, NSCHE informed us that Council supported a standard reporting format to facilitate comparisons between institutions.

6.40 Some of the universities are complying with CAUBO guidelines while others are not. We reviewed selected CAUBO recommendations for compliance and found that there are few instances where all universities are in compliance with a given recommendation. This leads to problems when trying to compare results from one institution to another. Some examples of differences in the financial statement presentation include: classification and presentation of expenses, and amortization policies.

6.41 None of the universities include budget information on their financial statements. Comparison of actual and budget amounts provides useful information about the effectiveness of the financial management process to the user of financial statements in the public sector.

6.42 Again, as in our 1996 report, we recommended that all universities incorporate the "*CAUBO preferred approaches*" when making choices among alternate accounting principles. This would enhance comparability among institutions and make the financial statements more useful to stakeholders.

Joint Initiatives

6.43 *Metro Consortium* - In 1995, the seven Metro area universities (Dalhousie, Technical University of Nova Scotia, Saint Mary's, Mount Saint Vincent, Nova Scotia College of Art and Design, King's College and Atlantic School of Theology) formed the Metro Consortium. A Business Plan was developed for the Consortium that suggested ways to absorb an anticipated reduction in funding of $17 million. "*The Consortium proposes to achieve the necessary cost savings from: (1) shared systems and services, and (2) academic partnering including attrition and early retirements.*" (From *Business Plan Metro Halifax Universities*, December 1, 1995)

6.44 During our 1996 audit, the Business Plan was discussed as the universities' approach to achieving cost savings without having to implement some of the cost saving options brought forward in *Shared Responsibilities*.

6.45 The Metro Consortium has issued two annual reports (1996-97 and 1999) since its inception. Examples of progress noted in these reports include: improving student mobility between universities through implementation of common start dates for terms, some sharing of faculty between institutions and collaboration in research. Although the Consortium reports cite progress made on a number of planned initiatives, they do not clearly demonstrate that the Consortium has achieved the savings laid out in the Business Plan. DOE advised us that over a three-year period from 1995 to 1998, operating grants to Nova Scotia universities decreased by $17.7 million. Over the same period, tuition fees increased by $15.7 million.

6.46 NSCHE prepared letters responding to both Consortium reports. The first letter, dated October 23, 1998 said "*The current Council [NSCHE] and Minister believe that there is a commitment by the Consortium to implement the Business Plan, a commitment which has not been honoured.*" The most recent letter, dated March 3, 2000, notes "*...Council recognized that some of the circumstances which led to the creation of the Consortium... have now changed. It is evident from this and the previous year's report, that the initiatives originally envisaged for the Consortium have not transpired.*" (From March 3, 2000 letter from NSCHE Chair to the Presidents of the Consortium universities) The letter also indicates that NSCHE continues to encourage collaboration between the institutions and any future joint initiatives. We support NSCHE's efforts to encourage more joint initiatives among the universities.

6.47 *Interuniversity Services* - The universities have pursued joint procurement activities for a number of years. All Nova Scotia universities are members of Interuniversity Services Inc (ISI) which provides services to 17 institutions across the Atlantic Provinces. This non-profit organization contracts for goods and services on behalf of its member institutions. In other areas, universities take advantage of CAUBO agreements in place for credit cards, car rentals, courier services and others. Where appropriate, ISI works with CAUBO in contracting services.

Enrolment Audits

6.48 The funding formula used to calculate both the unrestricted operating grant and some restricted grants is primarily an enrolment-driven formula. Each institution submitted yearly student enrolments to NSCHE for the three-year funding corridor beginning in 1994-95 and ending in 1996-97. (See Exhibit 6.4 for enrolment by institution in 1997-98.) The student enrolment details provided by each institution were entered into the funding formula and the funding level for the respective institutions was determined. NSCHE recognized that in order to ensure accuracy of the funding formula results, audit of the enrolment submissions provided by the institutions was essential. The Grants and Audit Division of the Department of Education agreed to perform the audits for NSCHE. The Grants and Audit Division currently consists of three staff members including the acting Director.

6.49 The Grants and Audit Division conducted audits, during the period from August 1998 to May 1999, on the enrolment submissions of all 11 institutions receiving funding through the funding formula. The purpose of the audits was to verify the validity and accuracy of the enrolment submissions. In order to conduct the audits, Grants and Audit Division staff obtained an electronic file of the raw data from nine institutions. A statistical sample was selected for detailed testing from this electronic file. For the two institutions where there was no electronic file, the enrolment submissions were audited 100%. The sample items selected were reconciled to documentary evidence at each university.

6.50 The purpose of our review was to evaluate the adequacy and appropriateness of the internal audit work performed in the verification of the universities' enrolment submissions. The audit procedures performed were evaluated against the best practice criteria established by the Institute of Internal Auditors. All 11 university enrolment audit files were examined during our review.

6.51 Based on the review of the 11 enrolment audit files, we noted that the audits were well planned. However, we could not determine whether certain audit procedures had been properly completed due to inadequate documentation. These audit procedures included:

- follow up of potential errors discovered during testing;
- proper indexing and cross referencing of audit files;
- reconciliation of raw data electronic files to enrolment submissions to ensure completeness;
- use of a consistent sample selection methodology;
- documentation of the results of audit procedures performed; and
- adequate audit file review.

6.52 File documentation for some of the institution enrollment submissions was incomplete. As a result, the audit findings in this regard were inconclusive. There is no documentation that these

audit findings were followed up to determine if there were actual errors in the submissions, and no estimate of the potential errors has been quantified. The 1994-95 to 1996-97 enrolment audits were conducted from August 1998 to May 1999. Therefore, due to the passage of time, we acknowledge that it would have been difficult for DOE and the universities to follow up on the discrepancies discovered during the enrolment audits.

6.53 At the time of our audit, the Grants and Audit Division did not have a formal audit policy and procedures manual. Although specific audit procedures had been developed for the enrolment audits, a comprehensive auditing manual should be developed to be used by audit staff as a reference when completing assigned tasks. We recommended improvements to audit procedures and related file documentation including follow up of discrepancies and file review. NSCHE has indicated that they are considering the option of having the universities' external auditors express opinions on the accuracy of enrolment submissions in the future. This may be a possible solution to the problems indicated above.

Operating Grant Calculation

6.54 The university funding formula, which determines the allocation of unrestricted operating grants to universities, consists of three major components: a weighted enrolment grant (WEG), a research grant and four extra-formula grants. Total base funding for Nova Scotia universities for 1998-99 was $181.5 million. (Exhibit 6.1 shows the allocation of this funding among institutions.) The weighted enrolment grant, applicable to specific disciplines, accounts for about 91% of the base funding. The research grant provides support to cover the indirect costs of research funded by the federal granting councils. Extra-formula grants recognize the existence of additional costs that are associated with location, small size, service to part-time students, and operation in the French language. Additional elements of the university funding system include restricted operating grants intended to support alterations and renovations, and non-space (library and equipment) needs, targeted funding and capital funding.

6.55 Our review included the detailed examination of the grant calculation for 3 of the 11 universities. Based on the documentation provided, we found discrepancies between this documentation and the figures included in the formula for certain aspects of the calculation. Management indicated that Council and university staff engaged in discussions where the audited figures differed from an institution's original submission. These discussions resulted in agreed upon enrolment figures for inclusion in the funding formula calculations. Where enrolment figures were changed, these changes were communicated to all institutions. We recommended that sufficient documentation be retained in the future so that funding calculations can be verified.

Capital Grants and Deferred Maintenance

6.56 DOE provides specific funding for capital construction and alterations and renovations. In 1998-99 the Department provided $3.6 million in alterations and renovations grants and $4.8 million in capital grants. Non-space (library and equipment) funding in 1998-99 was $3.5 million. Available funding for the alterations and renovations grants is allocated to universities by NSCHE using the same percentage as the base operating grant to the total operating grant. September 1998 capital grant prioritization was the responsibility of MPHEC. As of the 1999-2000 year NSCHE has taken over total responsibility for the capital grant process.

6.57 MPHEC, prior to the 1999-2000 year, would evaluate requests for capital grant funding against a comprehensive set of funding criteria. Effective for the 1999-2000 year, NSCHE assumed responsibility for the evaluation process. Due to existing capital grant commitments to Dalhousie, Saint Mary's and St Francis Xavier University, available funding has been predetermined until at least the end of 2000-01. As a result, NSCHE management had not yet developed the criteria which

will be used to evaluate capital requests. At the time of this audit, NSCHE, in conjunction with the university presidents, were in the process of developing a policy for capital grant funding. This policy is estimated to be completed in the next few months. NSCHE decided to include the presidents in the policy development process with the expectation of obtaining agreement on the criteria which will be used to evaluate potential projects. The Advisory Board will continue to work with university presidents to develop criteria.

6.58 Due to the limited amount of available capital funds, not all projects rated as a high priority have been approved for funding. Universities have received payments for approved projects over two or three years based on their cash flow requirements. The policy of providing payments based on cash flow requirements allows some funding to be available for smaller projects on a year-to-year basis.

6.59 We prepared a comparison of projects receiving funding against MPHEC's list of priority projects provided to the Department over the last five years. Based on the results of this comparison, except for those projects which received priority due to the rationalization of the teacher education program, all other approved projects were consistent with MPHEC's prioritization of projects.

6.60 To ensure that the universities are held accountable for the spending of the alterations and renovations grant funding received, each university is required to provide an audit report stating that the funds were spent in accordance with NSCHE's policy. For the 1998-99 year all audit reports were received except for NSAC (see paragraph 6.38).

6.61 In February 1999, NSCHE and the Council of Nova Scotia University Presidents (CONSUP) created a joint working group to conduct a study on deferred maintenance, facilities renewal and university capital needs. In November 1999, a report was released by this working group which identified the need for a significant investment in the Nova Scotia university infrastructure. The report estimates the total deferred maintenance and renewal backlog to be $302 million. The recommended level of annual renewal funding noted in this report is $29.2 million (based on 2% of current replacement value). In April 2000, a similar study was released by the Canadian Association of University Business Officers which supports the findings in the NSCHE/CONSUP report. For the 1998-99 year, funding provided by the Province, restricted to infrastructure, was $4.8 million for capital construction (Exhibit 6.5) and $3.6 million for alterations and renovations. NSCHE management stated that universities' expenditures above the funding provided by the Province for alterations and renovations would, in most cases, be paid out of their operating grants. Many institutions have embarked on special fund raising partnerships and capital campaigns with the private sector in an attempt to address their specific capital needs.

6.62 Although it appears, based on the details of the reports described above, that a large investment of funds is required to address the universities' capital needs and deferred maintenance backlog, the capital grant process itself has been well managed. The projects receiving funding have all been ranked as the highest priority based on a comprehensive set of criteria. With respect to alterations and renovations funding, NSCHE has decided to allow the universities to assess their own critical needs and select projects based on that assessment. In light of the seriousness of the deferred maintenance problem at the universities, it is important that the funding that is provided be targeted to the projects that provide the most value.

6.63 A recent government document supporting the 2000-01 budget called *A Course Ahead* discusses the Province's desire to move away from funding capital expenditures at the universities and have fundraising pick up this responsibility.

Regional Program Recoveries

6.64 Regional program recoveries are calculated and administered by MPHEC on behalf of all the Maritime Provinces. In June 1997, the Ministers of Education in New Brunswick, Nova Scotia and Prince Edward Island signed the *Agreement Respecting the Renewal of Arrangements for Regional Cooperation Concerning Post Secondary Education.* Under this agreement, MPHEC continued to develop and administer funding transfers among provinces for regional programs. The concept of regional program transfers recognizes the responsibility of the provinces to contribute funding toward students enrolled in programs outside the province, but within the region, if the programs are not offered within the home province. For the 1999-2000 fiscal year there were 468 designated regional programs currently being offered in the Maritime Provinces.

6.65 Regional transfers to Nova Scotia for 1999-2000 were $6.7 million. Exhibit 6.6 provides a five-year summary of regional recoveries by Nova Scotia. The transferred funds are accounted for as recoveries on the Province's financial statements. The individual universities receive the same grant from the Province for both regional and Nova Scotian students.

6.66 The formula used for calculation of the transfer is as follows:

$T = S \times W \times (G / D)$ where:

T - $ amount to be transferred from Province A to Province B for a particular program
S - the # of students from Province A enrolled in the regional program in Province B
W - MPHEC weight assigned to the program
G - size ($) of Province B's approved unrestricted grants to all its universities
D - Province B's total weighted full time equivalents (S x W)

6.67 The size of the transfer is based on the number of students from the paying Province, the weight of the program determined by MPHEC and the amount of the recipient province's unrestricted grants to its universities. In other words, Nova Scotia should recover approximately the same amount that it paid to its universities to fund the students, provided that the assigned weight of the program for which the Province is receiving a recovery is consistent between NSCHE's funding formula and MPHEC's formula for regional program recoveries.

6.68 Regional funding transfers calculated by MPHEC staff in any given year are based on the enrolments of Maritime residents in regional programs two years earlier and on unrestricted operating grants for the same period. As a result, the 1999-2000 transfer was calculated using 1997-98 enrolment and grant figures.

6.69 MPHEC provided us with information regarding the authority, procedures and processes used in calculating regional program recoveries. The focus of our review in this area was to assess the reasonableness of the monitoring procedures performed by NSCHE to ensure that the recoveries received were calculated appropriately and accurately.

6.70 NSCHE management currently monitors recoveries by comparing current year recoveries to prior periods and soliciting explanations from MPHEC for significant differences.

6.71 Due to the significance of regional funding recoveries, as well as the fact that Nova Scotia offers a high percentage of the regional programs in the Maritime Provinces, we recommended that the Advisory Board perform more rigorous monitoring of the accuracy and completeness of recoveries received.

International Students

6.72 Prior to the implementation of the funding formula, institutions were required to charge a differential fee of $1,700 to international students. This fee was remitted to NSCHE for redistribution among all Nova Scotia institutions as part of university operating grants.

6.73 Under the current structure, each institution sets international student tuition and retains any fees collected from these students. International students will be publicly funded up to 10% of undergraduate and 30% of graduate enrolment at any given institution. Specific programs may exceed established limits without any loss in public funding for the institution provided the ratio of international to domestic students does not exceed the limit for the institution as a whole. Universities are free to enroll international students beyond the established thresholds; however they will not receive public funding for these enrolments. NSCHE may review programs in which international enrolment is greater than 50% to determine if it is still in the public interest to provide government funding for such programs.

6.74 See Exhibit 6.7 for a summary of enrolments by residence of origin. This exhibit shows that the number of international students falls below the established thresholds.

CONCLUDING REMARKS

6.75 The introduction of a new Provincial funding formula for universities has been a positive development over the past few years. The major benefit of the formula is that it has rationalized the allocation of Provincial funds among the universities.

6.76 During the 1990's our audit work in the university sector resulted in recommendations for improvements in accountability, including the need for government and universities to develop and confirm a vision for the system, objectives and outcome measures, and to incorporate those in an appropriate accountability framework. Our most recent audit indicates that there has been little progress on those recommendations.

6.77 In 1996, when we last reported on universities, there were certain initiatives in progress which appeared to hold promise for improving the accountability and value-for-money of expenditures in the university sector. They included the potential cost savings identified in the *Business Plan Metro Halifax Universities*, studies on performance indicators and comparable financial information, and work on quality assurance. MPHEC and the universities have made some progress in the quality assurance area, but there has been little progress on the other initiatives.

6.78 In addition, our recent audit work identifies the need to improve monitoring of certain basic information such as enrolments which are an important component of the funding formulae and regional recoveries. In a time of scarce fiscal resources, it is important to ensure that each dollar is spent wisely.

6.79 With a new funding formula in place, we believe that there is a need for the Province to make necessary improvements in other aspects of the accountability framework and financial management of the university system.

Exhibit 6.1

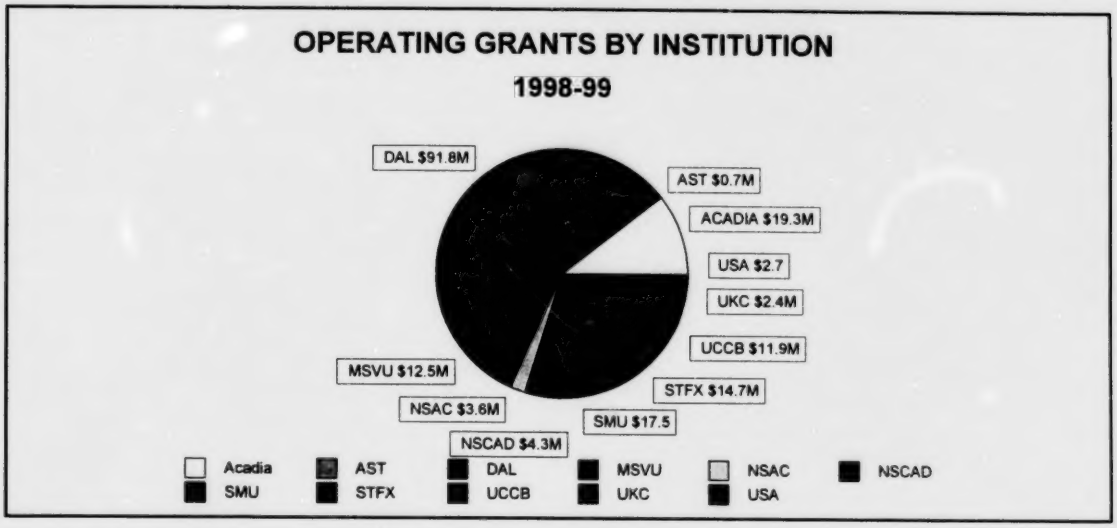


Exhibit 6.2

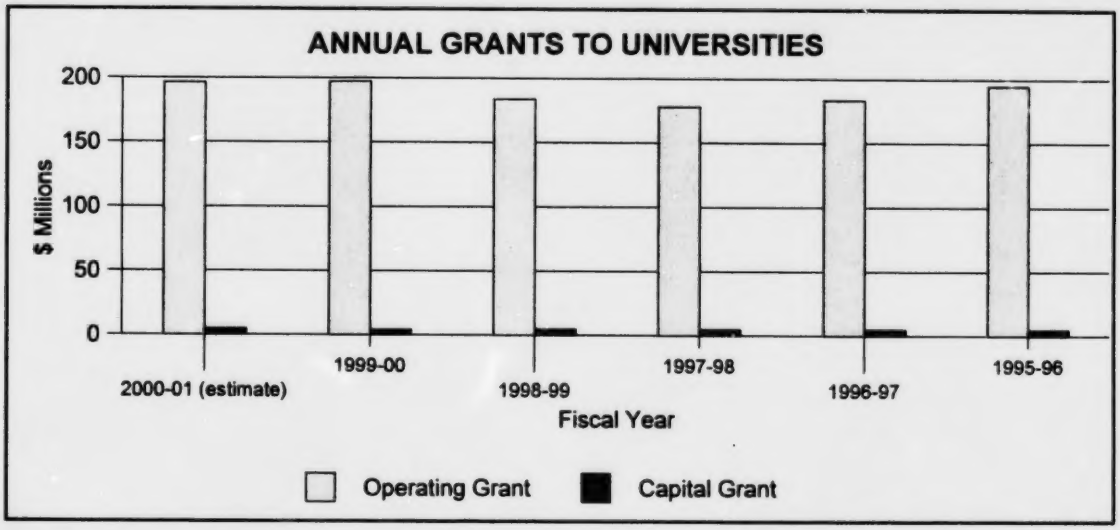
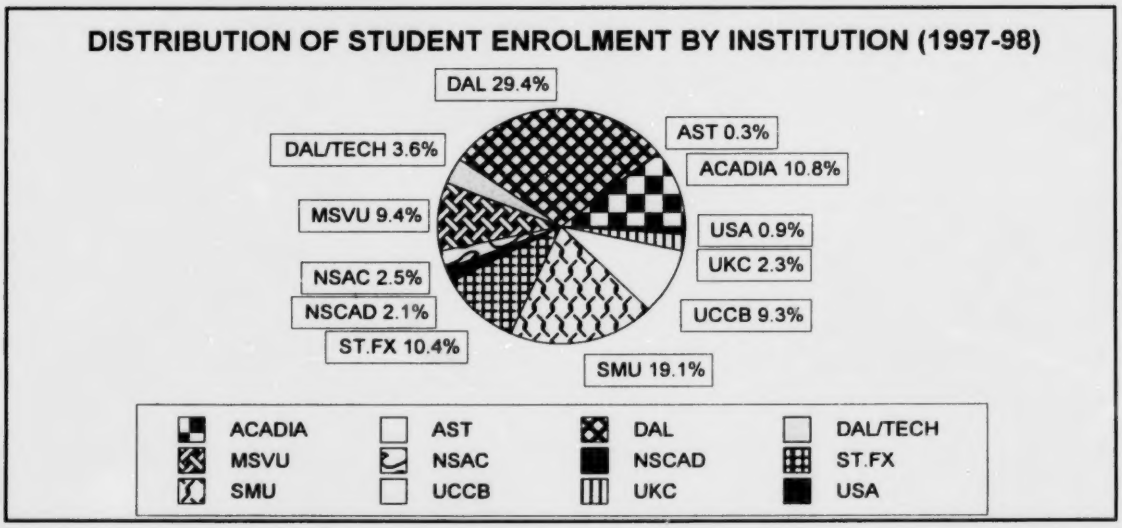


Exhibit 6.3

UNIVERSITIES-ANNUAL OPERATING SURPLUS (DEFICIT)

University	1998-99	1997-98
Dalhousie(including TUNS)	$11,261,000	$4,137,000
Saint Mary's	1,054,292	1,378,326
Acadia	(670,000)	(122,000)
Saint Francis Xavier	666,082	982,688
Mount Saint Vincent	(749,967)	(471,965)
University College of Cape Breton	148,300	(120,358)
Kings College	401,345	(149,772)
Sainte-Anne	246,714	249,281
Atlantic School of Theology	(157,789)	(4,959)
Nova Scotia College of Art & Design	328,381	308,458

Exhibit 6.4



Source: NSCHE Annual Report 1999

Note: Total 1997-98 enrolment for all institutions was 37,908.

Exhibit 6.5

UNIVERSITY CAPITAL FUNDING SUMMARY

Institution	1998-99	1999-00	2000-01 - Estimate
Dalhousie University	$1,864,379	$4,147,497	$ 891,097
Saint Mary's University	1,577,197	-	-
Saint Francis Xavier University	-	-	3,927,903
University College of Cape Breton	250,000	-	-
Total	$3,693,574	$4,147,497	$4,819,000

Note: The original capital funding for 1998-99 was $4.8 million. Subsequently, $1.14 million was transferred to alterations & renovations funding.

Exhibit 6.6

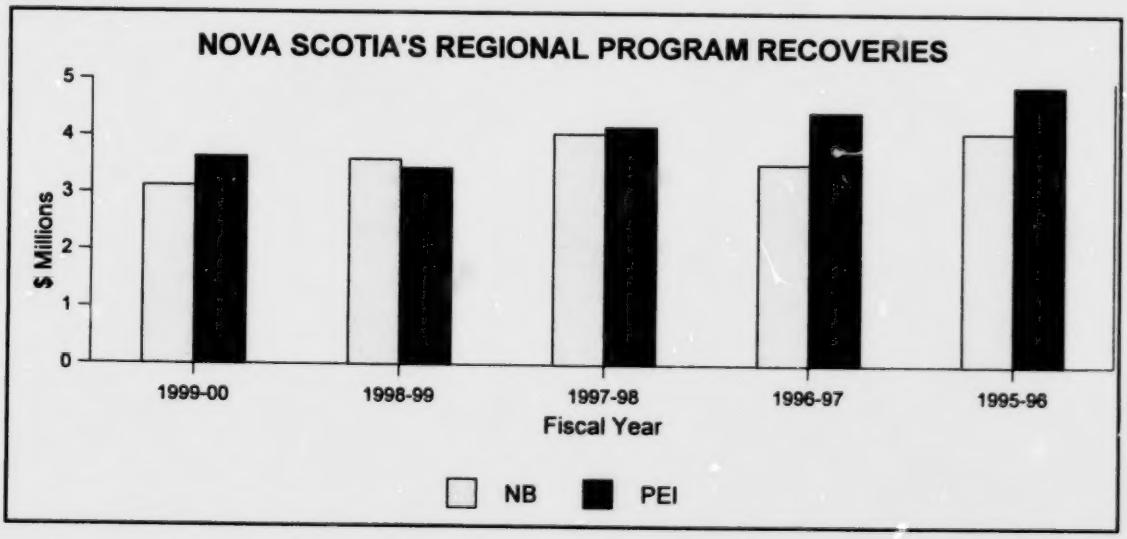
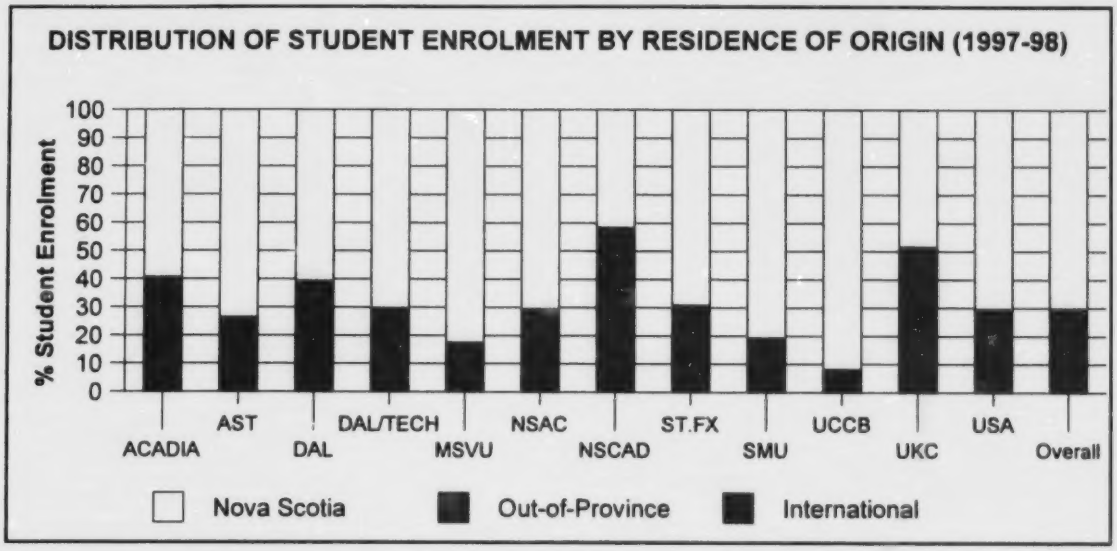


Exhibit 6.7



Source: NSCHE Annual Report 1999

7.

HEALTH - CAPE BRETON HEALTHCARE COMPLEX

BACKGROUND

7.1 The Cape Breton Healthcare Complex (CBHC) was established in 1996 through an agreement to amalgamate the Cape Breton Regional Hospital, the Northside General facility, the Glace Bay Healthcare facility, the Harbour View facility and the New Waterford Consolidated. Subsequently, two new facilities were constructed: Taigh Na Mara, a 67 bed long-term care facility; and Taigh Gradhach, a training centre facility for six children.

7.2 The Complex provides acute care, mental health and long-term care services, a comprehensive cancer centre, a rehabilitation centre and various clinical services to a population of 150,000.

7.3 CBHC has approximately 2,155 full-time equivalent staff. In addition, there are approximately 200 physicians, consisting of both general practitioners and specialists. The combined seven facilities provide 627 beds in approximately 1 million square feet of interior space. Exhibits 7.1, 7.2 and 7.3 provide details on the patient days by site and type of service provided, and staffing.

7.4 Appendix 7.1 is a summary of CBHC's accomplishments since the 1996 amalgamation and was extracted from a more detailed list prepared by CBHC management. We did not audit the information provided by management for the Appendix.

7.5 The Canadian Council on Health Services Accreditation (CCHSA) issued a three-year accreditation to the Complex following a review in the fall of 1998. The accreditation report identified certain conditions requiring improvement. Management and the Board acted upon the report's recommendations as required.

7.6 The Health Authorities Act was given Royal Assent on June 8, 2000. Section 74(1) provides for the CBHC Board to be dissolved and for the Complex to become part of District Health Authority (DHA) 8. This change is targeted for January 2001. Along with the change in governance, the new legislation introduces significant changes to the accountability relationship between the DHAs and the Province.

7.7 This was our first audit of the Cape Breton Healthcare Complex. We completed our audit under Section 15 of the Auditor General Act. We conducted our field work during the first quarter of 2000.

RESULTS IN BRIEF

7.8 The following are the principal observations from the audit.

- The CBHC Board members performed their governance function well. The Board approved deficit budgets but this was a systemic problem, due largely to the Department of Health's (DOH's) directives to maintain services and not reduce staff. The Department of Health subsequently funded these deficits. The new Health

Authorities Act limits the ability of the District Health Authorities to approve deficit budgets.

- The Complex prepares an annual report. We recommended improvements in content including more detail on objectives and related achievement, and inclusion of the audited financial statements. The new Health Authorities Act includes provisions which, if implemented, will meet our recommendations.

- CBHC has been a leader in soliciting performance information from other facilities, and using that information to measure its own performance. CBHC established a benchmarking process in collaboration with a number of hospitals throughout Canada. We commend CBHC's efforts in benchmarking and believe this is a useful tool that the Department of Health and the District Health Authorities should use to measure and improve performance in many important areas.

- Many in the Canadian health sector have commented that good information systems are the key to solving the fiscal and other problems in health care. The CBHC, and a number of other partners in health, submitted a proposal to DOH for a new Health Information System more than two years ago, as part of a strategic information technology plan. To date, no response has been received from DOH. More timely collaboration between the Department and its partners in information technology strategic planning is required.

- CBHC monitors inappropriate bed use and reports results to the Board. These reports routinely show that more than 25% of patients occupying acute care beds at CBHC could be more appropriately treated in another setting. This data is consistent with Province-wide figures reported by the Department of Health. Inappropriate bed use is a significant problem, but it cannot be remedied by CBHC acting alone. DOH, CBHC, and other long-term and acute care providers will need to work together to achieve a solution, and implementation of the recommendations in the Department of Health's recently released *Transitions in Care - Nova Scotia Department of Health Facilities Review* is a first step in that process.

- The financial monitoring process in place at CBHC is appropriate, although there is a need to improve the forecasting process. Management identified the need for better forecasting and we concur.

- CBHC has recently established a Clinical Financial Advisory Committee to identify opportunities for improvement in the economy and efficiency of all clinical activities. The Committee has established a list of potential areas to be reviewed and has selected its first topic. Recommendations are forthcoming. We support this endeavour and recommend that the initiative be monitored by establishing annual targets and reporting on its performance.

- The procurement function is well managed and complies with Provincial procurement policies and the Atlantic Procurement Policy. CBHC has established relationships with a number of buying groups in an effort to reduce costs through volume discounts. We support involvement in initiatives such as these, and recommend that CBHC monitor and report savings achieved.

- Rates charged by CBHC to uninsured patients are not based on cost of the actual services provided to the patient, but rather on an average per diem cost, so the rates may not reflect the actual cost incurred. We recommend that the Hospital and DOH

work towards developing an approach which results in recovery of full costs from all services for which the Hospital is able to charge fees.

AUDIT SCOPE

7.9 The objectives of this assignment were to:

- review and assess the performance of the governance and planning function at Cape Breton Healthcare Complex with an emphasis on planning, policy setting, and monitoring;
- review and assess CBHC's accountability relationships:
  - the external accountability relationship between CBHC and the Department of Health; and
  - the internal relationships between the Board, its senior management and individual facilities/programs;
- review and assess performance reporting, particularly with respect to indicators of economy and efficiency;
- determine whether systems and practices in the following areas at CBHC provide for adequate controls, and due regard for economy and efficiency:
  - financial management;
  - information technology;
  - procurement;
  - human resources; and
  - revenues and fees;
- determine whether there is compliance with legislation and certain government policies;
- determine the major changes that have occurred since CBHC assumed responsibility for the facilities in 1996; and
- review and assess the nursing human resource management function, with an emphasis on workload measurement and due regard for economy and efficiency.

7.10 The audit criteria were taken from recognized sources including the Canadian Council on Health Services Accreditation's *Standards for Comprehensive Health Services*; the Canadian Institute of Chartered Accountants Criteria of Control Board's *Guidance on Control* and *Guidance for Directors - Governance Process for Control* and CCAF-FCVI Inc.'s *Six Principles of Effective Governance;* the Organization of Economic and Cultural Development's *Best Practice for Charging for Government Services*, along with the Government of Nova Scotia's Procurement Policy.

7.11 The following general criteria were utilized in this assignment.

- Accountabilities and responsibilities should be clearly defined.
- The Board members should clearly understand the objectives and strategies of the organization.
- The Board members should understand what constitutes reasonable information for good governance and obtain it.
- Once informed, the Board members should be prepared to act to ensure that the organization's objectives are met and that performance is satisfactory.
- The Board should fulfill its accountability obligations to stakeholders by reporting on performance.
- Strategic directions should be defined through a process of strategic planning.
- Performance should be monitored against the targets and indicators identified in the organization's objectives and plans.
- CBHC should have processes to allocate human, financial and physical resources, and to monitor financial performance.

PRINCIPAL FINDINGS

Governance

7.12 CBHC was formed through an amalgamation agreement in April 1996. The voluntary Board, consisting of 13 members, was appointed through the Executive Council by Order in Council. Members are reimbursed for necessary expenses to attend Board meetings. There were two vacancies on the Board which existed for some time as there were delays in appointing Board members. The new Board for the District Health Authority will assume responsibility in early 2001 according to current DOH plans.

7.13 The Board met monthly, except for the summer months, and the meetings were reasonably well attended with an attendance rate of approximately 70%. There had not been an annual meeting since amalgamation in 1996 and, as a result, some of the bylaws specifying certain annual requirements were not complied with.

7.14 The Board, in early 1998, identified a self-assessment process, using acceptable external criteria, and by May 1998 had completed its first self-assessment of performance. The process was planned to be completed bi-annually, however a second self-assessment was postponed due to the restructuring announced by DOH. The Board provided an orientation package to newly appointed members and required a confidentiality statement to be completed. As well the bylaws include conflict of interest guidelines and a code of conduct for the directors.

7.15 As part of our work in the governance and planning area, we solicited the views of Board members, through a written questionnaire, on certain issues impacting the role and effectiveness of the Board. The response rate was 55%. The responses indicated general satisfaction with the Board's operations. The respondents were generally in agreement with the Board's size, composition, development opportunities provided to members, and level of cooperation among members. They indicated that they had a clear understanding of the responsibilities and

accountabilities of the Board; and believed that the Board received appropriate information to plan, safeguard, monitor and manage the assets, operations and risks of CBHC.

Relationship between Board and Senior Management

7.16 Senior management of CBHC consists of the CEO and four other positions. Senior management are employed on five-year contracts with severance clauses ranging from 6 to 18 months.

7.17 The CEO assembled a series of objectives, linked to the strategic directions of CBHC, which were presented to and discussed with the Board. The Board and CEO agreed on annual objectives or expectations which were targeted to be completed within a two-year period. Annually, the CEO reports on accomplishments and achievement of objectives.

7.18 The Board followed a documented process, recommended by external consultants, to evaluate the CEO annually. The CEO was evaluated once, in early 1998, by the Executive Committee. We recommend that the Board evaluate the CEO's performance annually as recommended by the external consultants.

7.19 The job descriptions of the other senior managers include the requirement to collaborate in strategic plans, goals and objectives. This was achieved through the CEO's sharing of goals and objectives with the senior management team. The CEO monitors the performance of senior management annually.

Monitoring of Operations

7.20 The Board has mechanisms to monitor various aspects of its operations. For example, the CBHC has a quality management function which completes reports on risk assessment and submits them to the Board. The Audit Committee and senior management discuss and follow up on external audit recommendations. The Board monitors follow up on recommendations resulting from CCHSA accreditation reviews. Each of the senior management job descriptions requires the individual to ensure compliance with regulatory legislation.

7.21 The Vice President of Corporate Services reports to the Board monthly and provides a report to facilitate monitoring of financial results. The report includes appropriate comparison of actual to budget, and variance analysis. With respect to forecasting of financial results to year end, the reporting has been informal and inconsistent. Management recognizes that this process should be improved.

Planning

7.22 Subsequent to the 1996 amalgamation of the various facilities, the Board, using a facilitator, developed statements of mission and values. The mission statement clearly defines the purpose of the organization and is clearly linked to the community served. A vision statement was approved by the Board in late 1997. The Board also engaged a facilitator to assist the Board and senior management in developing strategic directions. This resulted in eight broad statements of strategic directions. The Board and senior management reviewed these in early 1998.

7.23 Financial planning at CBHC is impacted by the Department of Health's funding decisions. In recent years DOH funding announcements have occurred too late in the fiscal cycle. The CBHC Board must be aware of available financial resources before the fiscal year commences to facilitate proper planning. The role of the Department of Health in the financial aspects of the health sector, including approval of funding and business plans, was discussed in more detail in Chapter 7 of our

1999 Annual Report (page 106) which reported the results of our audit of the Northern Regional Health Board.

7.24 CBHC Board minutes reflect discussions and approval of resource requirements. The Executive Committee reviews expenditures, and makes recommendations to the Board. The Board approves the expenditure level, but has been unable to approve a balanced budget.

7.25 This Board, similar to others in the Province, was directed by the Department of Health in recent years to maintain the current service delivery and at the same time to balance the budget. These competing directives caused difficulties in financial planning and management. The Complex attributes the deficits incurred to a "revenue shortfall" based on the Department of Health budget.

7.26 The deficits were a systemic problem throughout the health sector in the Province; each of the Regional Health Boards and Non-designated Organizations had accumulated a deficit by March 31, 1999. The Department of Health has since funded these accumulated deficits.

7.27 The new Health Authorities Act includes provisions limiting the ability of District Health Authorities to approve deficit budgets. Those provisions are reproduced below.

> *"31(1) A district health authority shall not plan for or, in any fiscal year, incur or make expenditures that will result in the total of operating expenditures and capital expenditures from revenue exceeding the total of its revenues from all sources in that fiscal year.*
>
> *(2) Notwithstanding subsection (1), an amount in excess of revenue may be expended in a fiscal year for operating expenditures and capital expenditures if the district health authority has entered into an agreement with the Minister providing that the amount will be replaced during the following fiscal year.*
>
> *(3) Where operating expenditures, including capital expenditures, from revenue for a fiscal year exceed total revenue from all sources for that year, the resulting deficit as shown on the annual financial statements of the district health authority for that fiscal year shall be recovered, no later than the end of the fiscal year following the fiscal year in which the deficit occurred, by a reduction in expenditures or an increase in revenue, or both.*
>
> *32 Where a district health authority realizes a budget surplus at the end of a fiscal year, the Minister may authorize the authority to retain all or a part of the surplus on such terms and conditions as the Minister considers appropriate."*

7.28 Sections 56 to 58 of the Health Authorities Act set out the responsibilities of the DHAs, DOH and the Governor in Council in a revised health-services business planning process. We hope that implementation of these provisions will lead to timely approval of business plans and remedy existing problems in the financial planning area.

Accountability

7.29 The Board prepares an annual report to the public. The report does not include any financial information or comparison of actual results to budget. There is limited reporting on the level of achievement of objectives, goals or plans. The report could be improved by including the financial statements and more detail on objectives and related achievement.

7.30 Section 21 of the Health Authorities Act indicates that District Health Authorities will be required to prepare annual reports including financial statements and reporting on achievement of performance objectives. DHAs will be required to submit these reports to the Minister of Health.

The Act also provides for the Minister of Health to table these reports in the House of Assembly. These provisions, if implemented appropriately, should improve accountability in the health sector.

7.31 CBHC produces a semi-monthly newsletter which is available to staff and the public. Board meetings have occurred in the various facilities but are not open to the public.

Physician Issues

7.32 The Complex has a physician manpower plan detailing the required number of physicians with various specialties. The Board grants hospital privileges to physicians on an annual basis. Before approving new physician positions, CBHC prepares an impact analysis which includes review of additional costs associated with the new position.

7.33 CBHC has been experiencing physician shortages. One approach taken by CBHC to deal with this shortage is the introduction of a family medicine program through Dalhousie University, which allows trained individuals to practice under the supervision of a licensed physician during the last six months of the program. There is also a recruitment plan in place which includes use of personal contacts, advertisements, website, and recruitment agencies in various parts of Canada.

7.34 CBHC has contractual arrangements with approximately 23 physicians, both general practitioners and specialists, to supplement fee-for-service arrangements and provide for services ranging from family medicine to anaesthesiology. The arrangements call for a guaranteed minimum annual income with any differential between that figure and insurable fee-for-service billings paid by CBHC.

7.35 The Complex made loans totalling approximately $25,000 to two physicians. CBHC was attempting to deal with physician shortages at that time, and the funds were advanced as a result of a request for relief of hardship by the relocating physicians. Appropriate supporting documents such as promissory notes and repayment agreements were not completed. The amounts have not been collected and will likely be written off in the near future. Management indicated that similar loans will not be made in the future.

Performance Measurement and Reporting

7.36 The need for improvements in performance reporting and related issues in the health care field have been well documented by others. For example, both the Department of Health's *Transitions in Care - Nova Scotia Department of Health Facilities Review* (March 2000) and the Atlantic Institute for Market Studies' *Operating in the Dark: The Gathering Crisis in Canada's Public Health Care System* (Brian Lee Crowley, David Zitner, Nancy Faraday-Smith; November 1999) discuss the deficiencies in the current system and recommend significant change in this area. The following quote from *Operating in the Dark* illustrates the severity of the problems.

> "*Health care is the largest public spending programme in government. Yet we do not possess the information, or even the ability to gather that information, that would allow us to assess the performance of the current system, let alone evaluate the realistic alternatives.*" (p. 1)

7.37 CBHC has been actively measuring its performance in certain areas and reporting the results to the Board. Exhibit 7.7 is an example of a report which the CEO presents to the Board quarterly. The report is divided into four sections and includes the following performance indicators:

- Quality indicators - commonly used measures of quality performance in Canadian hospitals;

- Utilization indicators - commonly reported performance indicators of utilization and delivery of services;
- Waiting time and turnaround indicators - the waiting time for various services provided and the length of time it takes to receive the service; and
- General indicators - a variety of mainly financial performance indicators.

7.38 This report provides Board members with a good summary of activity during the previous quarters. It could be expanded to include objectives and targets for these areas and measurement against the targets. Also, as noted in paragraph 7.29 above, the annual report does not include the results of this monitoring and we recommend that it be included.

7.39 CBHC has been a leader in soliciting performance information from other facilities, and using that information to measure its own performance. CBHC established a benchmarking process in collaboration with a number of hospitals throughout Canada. This activity commenced in 1996 and the function is completed at CBHC for participating members by one staff person with only minimal resources - a personal computer and an office.

7.40 CEOs of the participating hospitals select an area to be studied to identify the best practices. The Balanced Scorecard methodology is used to complete the comparison. The comparison is from four perspectives: financial; customer satisfaction; internal business process; and innovation and learning. Results of the comparisons are used by the participants to improve practices in their respective hospitals.

7.41 To date, CBHC has completed benchmarking surveys for cataract surgery, hip and knee surgery, housekeeping, food services, diagnostic imaging and cardiac surgery. Benchmarking activities had recently commenced in nuclear medicine and finance but were incomplete at the time of the audit. The CEO of CBHC made a presentation to DOH on the topic of benchmarking in January 2000.

7.42 CBHC has benefited from the benchmarking process. Examples of the benefits include the following:

- gathering new ideas from various sources;
- setting goals, targets and linking strategies for improvement;
- allocating resources;
- encouraging feedback and learning;
- reducing the cost of product;
- examining the benefits of amalgamated services;
- examining outsourcing;
- increasing education of staff;
- aiding in budget submission; and
- recognizing good work performance.

7.43 We commend CBHC's efforts in benchmarking and believe this is a useful tool that the Department of Health and the District Health Authorities should use to measure and improve performance in many important areas.

Patient Satisfaction Survey

7.44 Patient satisfaction is one important indicator of performance. CBHC participated on three separate occasions with the *Measuring Up* survey completed by the Conference Board of Canada. The purpose of the survey is to enable CBHC to assess the level of patient satisfaction with the institution, and to identify areas which, from the patient's perspective, may require improvement. The participating facilities may also compare results among themselves. Initially, the CBHC survey identified areas for improvement which were acted upon and, more recently, CBHC has scored well in all areas.

7.45 The Complex submits performance information to the Canadian Institute of Health Information (CIHI). CIHI processes information on discharged patients and forwards comparative reports to the hospital and DOH by site. One of the measures used is Resource Intensity Weights (RIW) which facilitate comparisons of mix and volume of patients between programs, hospitals and provinces. RIW information is used as an overall measure of productivity. Facilities using this measure can determine which facilities have similar RIWs and then make comparisons of clinical and resource utilization. This type of information has recently been reported to the CBHC Board.

Utilization of Beds

7.46 In March 2000, the Department of Health released *Transitions in Care - Nova Scotia Department of Health Facilities Review*. The study resulted from *"significant concerns about the apparently high numbers of patients in the province occupying acute care beds but requiring a different level of care."* (Summary, p. 1)

7.47 *Transitions in Care* reported that *"on average, approximately 25% of hospital patient days across the province, at the time of the survey, were for reasons other than active 'acute' care...The single largest barrier to timely and appropriate discharge lay in patients' access to Long Term Care beds."* (Summary, p. 3-4) Exhibits 7.9 and 7.10 of this chapter are graphs of how acute care beds are used which have been reproduced from *Transitions in Care*. Results are shown on a Province-wide and regional basis.

7.48 The following are examples of problems caused by inappropriate use of acute care beds.

- The occupants of the acute care beds may not be getting the most appropriate care for their needs.
- Those who need access to acute care beds may be subject to increased waiting times.
- Unnecessary costs are incurred by the Province as expensive hospital beds replace less expensive long-term care beds. Also, long-term care beds are not fully insured so the Province loses revenue by providing access to hospital beds rather than long-term care beds.

7.49 CBHC monitors inappropriate bed use and reports results to the Board. These reports routinely show that more than 25% of patients occupying acute care beds at CBHC could be more appropriately treated in another setting. As noted above, this figure is consistent with the Province-wide results.

7.50 Inappropriate bed use is a significant problem, but it cannot be remedied by CBHC acting alone. DOH, CBHC, and other long-term and acute care providers will need to work together to achieve a solution, and implementation of the recommendations in *Transitions in Care* is a first step in that process.

Financial Management

7.51 By March 31, 1999, CBHC had accumulated a total operating deficit of $64.9 million. The major components of the deficit were as follows:

Surplus as at March 31, 1996	$ (7) million
Less: Write off, in 1998, of amounts recorded as receivable from DOH prior to March 31, 1996	32 million
Total operating deficit related to period prior to amalgamation	**25 million**
Plus: Operating deficit incurred during 1997 to 1999	29 million
Plus: Shortfall in capital funding in comparison to depreciation charged to operations	10 million
Total operating deficit, March 31, 1999	**$ 64 million**

7.52 DOH provided funding for the Complex's deficit of approximately $84 million in December 1999. This amount included all but $10 million of the operating deficit, plus an amount equal to the Complex's recorded deficit on capital spending of approximately $30 million.

7.53 The CBHC Board decided, during 1999-2000, to restate the audited financial statements of prior years to reflect the impact of the additional revenue from the Department of Health in the years to which it related. This had the impact of reducing prior years' reported deficits. We concur with the Board's decision to restate the financial statements.

7.54 CBHC had revenues of $130.7 million for the 1999-2000 fiscal year and expenditures amounting to $131.9 million resulting in a deficit of $1.2 million. The Board had originally approved a deficit of $19.7 million, but subsequently received additional funding from the Department of Health which reduced the approved deficit.

7.55 Exhibit 7.4 provides a summary of the revenue, expenses and annual deficit for the period since amalgamation (as originally reported, before the impact of the additional funding described in paragraphs 7.51 and 7.52 above). Exhibit 7.5 shows the growth of the accumulated operating deficit.

7.56 The 1996 merger of the hospitals created the need to amalgamate the predecessor finance departments. All finance-related matters are now dealt with through one finance department located at the Cape Breton Regional Hospital. Of the 26 full-time equivalent positions in the Finance department, 4 management positions are staffed by individuals holding professional accounting designations.

7.57 *Budgeting process* - CBHC has an established budget process. The process commences in the fall each year with meetings involving senior management, department of finance personnel and program directors. Senior management communicates guidelines such as estimated cost increases and productivity factors and the finance department also provides a budget preparation package. Senior management expects to have a completed budget before the commencement of each fiscal year. All program funding requests must be supported, and are reviewed by department management before the department's budget is approved. New or expanded program requests are submitted to and reviewed by senior management.

7.58 Following senior management challenge and review, the budget is reviewed by the Executive Committee, which includes the Treasurer, a professional accountant.

7.59 The Board reviews and approves the expenditure budget and generally, very close to commencement of the fiscal year, the departments are made aware of the approved expenditure limits.

7.60 Each department prepares a prioritized list of equipment needs for the next three years. The lists are submitted to a committee which compiles all the lists and provides an overall picture of prioritized equipment needs. In addition, the Foundations represent another source of capital funding which is available to all departments.

7.61 *Monitoring and reporting* - The financial monitoring process in place at CBHC is appropriate, although there is a need to improve the forecasting process. Management identified the need for better forecasting and we concur.

7.62 Monthly financial reports and variance reports are prepared and sent to each department. As well, a separate variance summary is presented to the Board. The monthly financial reports are detailed and allow individual managers to look closely within the department to determine where and why a variance is occurring, and to make necessary preparations to ensure they are within budget at the end of the year. Each department is required to prepare a variance analysis quarterly, explaining the year-to-date variances in compensation and other expenses.

7.63 Recently, senior management has requested each department to provide an estimate of the expenditures to year end. These estimates are the only form of forecasting that is being done at this time. Management recognizes that there is a need to improve and formalize forecasting and have plans to do so. The annual audited balance sheet is the only report on financial position the Board receives and we recommend that the Board receive a report of financial position more frequently.

7.64 *Economy and efficiency* - CBHC has recently established a Clinical Financial Advisory Committee to identify opportunities for improvement in the economy and efficiency of all clinical activities. The committee has established a list of potential areas to be reviewed and has selected its first topic. Recommendations are forthcoming. We support this endeavour and recommend that the initiative be monitored by establishing annual targets and reporting on its performance.

7.65 The operations of the CBHC Finance Department were recently reviewed by an external consultant. This report provided numerous recommendations for performance improvement. Although not all recommendations have been implemented, CBHC has implemented most of those feasible in today's environment.

Human Resource Management - Nursing

7.66 *Workload measurement* - The Canadian Council on Health Services Accreditation states that hospitals should have a process for allocating human resources and that protection and control of resources should be achieved, in part, by measuring workload. Workload measurement systems facilitate tracking of the staffing requirement, and allocation of staff to programs and functions. Such systems provide for a staffing level that is appropriate given the mix of patients in the hospital, and the required standard of care.

7.67 CBHC has no formal workload measurement system for its nursing staff. GRASP (a common nursing workload measurement system) was used prior to amalgamation at certain of the facilities, but the output was found to be unreliable and was not used. CBHC nursing management completed a study of comparable hospitals to determine the required number and type of staffing for the various patient service areas. The study, although not extensive, provided direction for the

staffing levels required in each area. As a result of the study, staffing levels were adjusted where management deemed necessary. This approach, however, does not adequately consider daily changes in volume, case mix and acuity and CBHC should have a more formal system.

7.68 *Overtime and absenteeism* - The amalgamation of the facilities brought approximately 857 nursing staff together under one organizational structure (see Exhibit 7.3). The Complex, similar to other hospitals in the Province, is experiencing nursing shortages.

7.69 Overtime and absenteeism impact the costs of operating a hospital. Exhibit 7.6 provides a comparison of CBHC's overtime and absenteeism costs, in the nursing area, for the past two years. Appropriate monitoring and reporting are necessary to effectively control these costs. CBHC management monitor overtime and absenteeism on a monthly basis. The Board does not receive regular reports on overtime. Recently, the Board has started to receive information on absenteeism and we suggest that overtime costs be added to this report.

7.70 Nursing overtime costs are affected by the availability of casual nurses. There are 126 casual nurses, of which 83 are in temporary positions and unable to provide services on a casual basis. The remaining 43 are considered to be the available casuals. The small number of available casual nursing staff is a major contributor to the overtime requirements.

7.71 Recently, the Complex has been selected to participate in two pilot projects related to developing methodologies to reduce absenteeism. The Complex records absenteeism information on a daily basis in the information systems, whereas most other health institutions record the information bi-monthly as a single total. Daily recording provides better information for analysis of trends and related causes, and this information should prove useful in the pilot projects. Management indicate that within two months following implementation of the absenteeism management program, month-over-month costs decreased by $120,000 or 30%.

Information Technology (IT)

7.72 The IT department has 8 staff and an operating budget of approximately $700,000. IT-related equipment expenditures for the past three years have totalled $561,875, excluding Y2K expenditures.

7.73 *Proposal for Health Information System* - Information systems are a key factor in solving the problems in health care as discussed in paragraph 7.36 above. CBHC and its counterparts across the Province collaborated in preparing a proposal for a new Province-wide Health Information System (HIS). Subsequently, DOH requested the participants to submit a business case and the group shared the $100,000 cost of consultants to assist with this task. The one-time project costs for the Health Information System were estimated in the fall of 1999 to be $35.0 million. This includes required hardware, 18 modules of software, training, project management and licenses. Annual ongoing support costs were estimated at $2.5 million. The cost of a Provincial data warehouse was estimated at an additional $11.0 million. The estimated cost savings associated with joint acquisition by the five participating organizations rather than individual acquisitions was $3.2 million. The project implementation was expected to take 22 months.

7.74 The HIS business case identified the following benefits.

- *"A common electronic clinical record will allow physicians access to information about all services provided to the patient regardless of the facility in which the service was provided and across all programs;*

- *Financial management systems can be integrated providing access to data and information that will allow managers to have the opportunity to manage resources in a manner previously unavailable;*

- *Integration between [the supplier] modules and diagnostic equipment such as that found in laboratories is available eliminating the need to enter data more than once or at all;*

- *Patient information will be available at all facilities in Nova Scotia with an appropriate level of technology. This will allow patient history to be available no matter what region the patient is seeking treatment from; and*

- *The Province will have access to information, previously unavailable, to assist in meeting the Federal Government requirements for health sector funding."* (Page ii, Section I)

7.75 The business case also identified the following disadvantages, among others, with the current situation:

- *"the current technology software is outdated and has limited functionality;*

- *there is no standard hardware or operating system for the software;*

- *there is no accurate and timely means to collect and report information regionally or provincially;*

- *patients are required to provide demographic and clinical history information at every facility, and in some cases at every department within a facility, visited for health care;*

- *there is insufficient time and inadequate information to manage the physician credential process according to existing policies."* (Pages 7-10, Section 2)

7.76 The HIS proposal was provided to DOH almost two years ago. To date, the Department has not formally responded to the proposal. More timely collaboration on strategic planning in the IT area between DOH and the various facilities providing services is required.

7.77 *Management of the IT department* - The IT department prepares annual goals and objectives which serve as a plan for the current year. These plans are tied closely to the goals and objectives of the entire Complex.

7.78 The IT manual sets out standards for the organization outlining policies in such areas as confidentiality and security.

7.79 CBHC has a prioritization process in place for capital and operating information technology requests. A multi-disciplinary selection team is used to identify user needs throughout the Complex. Low cost service or information requests are handled by two programmers/analysts. All requests are tracked in a database and status is monitored. Any requests having a more significant cost impact are reviewed by the IT director and, if warranted, result in a proposal to the VP of Corporate Services.

7.80 Management has not fully developed performance indicators with respect to information technology management. Performance indicators should be developed and reported to management on a regular basis.

Procurement

7.81 The procurement division consists of seven full-time equivalent positions.

7.82 CBHC has established relationships with several buying groups in an effort to reduce costs, and is a shareholder of a national medical surgical supplies buying group, a shareholder of a food buying group and a member of the Provincial Drug Distribution Program (PDDP). CBHC was instrumental in re-establishing the food buying group when the Nova Scotia Association of Heath Organizations ceased providing the purchasing service.

7.83 The process followed by these buying groups ensures CBHC complies with Provincial Procurement Guidelines as these groups solicit tenders. The two buying groups where CBHC is a shareholder provide volume rebates. There are some items which are still purchased outside these groups, either to fulfill existing contracts or for items not otherwise available through the groups. The Complex has plans in place to prepare reports outlining savings achieved through participation in these buying groups. We support management's involvement in initiatives such as these, and recommend that CBHC monitor and report savings achieved.

7.84 The Provincial Drug Distribution Program agreement requires that the parties purchase all their drug requirements through the program. Drugs which are not available through PDDP are permitted to be purchased from outside sources. Our review of drug purchases indicated that CBHC meets this requirement.

7.85 CBHC has recently introduced a purchasing credit card system to attempt to reduce costs involved in purchasing lower volume miscellaneous supplies and goods. Each department sets guidelines for the total amount that can be purchased using the credit cards.

7.86 There is an inventory management system in place and reports are prepared for senior management. Current levels of inventory are slightly higher than management would consider acceptable due to the required increases to prepare for potential Y2K related problems. Management has been making a concerted effort to reduce the total dollar value of inventory.

Revenue/Fees

7.87 The Cape Breton Healthcare Complex had revenue from operations of $130.7 million for the 1999-2000 fiscal year. Of this amount, $112.4 million was revenue received from the Department of Health for hospital operations. The balance of $18.3 million was received from non-Provincial sources for various services. Exhibit 7.8 shows the revenues by source.

7.88 Until April 1, 1995, the Department of Health costed and established rates for various non-insured services performed by hospitals and health care facilities. This is now the responsibility of the individual hospitals.

7.89 The Department does, however, continue to establish rates for Interprovincial Reciprocal Billings. These are the amounts billed by the Department of Health to other provinces/territories to cover the provision of in-patient and out-patient services to entitled residents of these jurisdictions by Nova Scotia hospitals. The Department of Health establishes one ward per diem rate for each hospital based on its annual budget divided by the number of patient days. The rates have not changed from April 1, 1998 as there has been a national moratorium on changing per diems. These Interprovincial Reciprocal Billings and collections are the responsibility of the Department, and do not affect revenue of the hospitals.

7.90 CBHC's management information systems are not able to determine costs of most services provided. CBHC therefore uses the Department's Interprovincial Reciprocal Billing rate for the

Complex's own billings to non-insured patients (e.g., patients from other countries receiving services from the hospital). For patients whom the hospital is able to bill, the hospital keeps the revenue. For some services, CBHC continues to use rates established several years ago when the Department of Health provided costing information for non-insured services.

7.91 Since rates charged by CBHC are not based on cost of the actual services provided to the patient, but rather an average per diem cost, the rates may not reflect the actual cost incurred. We recommend that the Hospital work towards developing an approach which results in recovery of full costs for all services for which the Hospital is able to charge fees.

7.92 CBHC has the authority to establish rates for non-insured services which include dietary operations, laundry operations, orthotic shoe sales and medical records. It does not have a policy document setting out how each fee is to be determined, the frequency of setting/changing the rate and the approvals required, etc. CBHC has determined the basis on which these fees are to be set (i.e., dietary and laundry rates are set for cost recovery and orthotic shoe sale prices are set at market). CBHC is currently reviewing the rates based on cost recovery as labour costs have increased recently. We recommend that the hospital prepare a policy to provide all CBHC staff with guidance on how the fee is to be determined, the frequency of setting/changing the rate and the approvals required, etc.

7.93 *Long-term care* - Veterans Affairs Canada (VAC) contracts with the Cape Breton Healthcare Complex for the priority use of 16 long-term care beds at Taigh Na Mara in Glace Bay and 35 long-term care beds at Northside Harbourview Hospital in Sydney Mines. VAC makes payments to CBHC based on a daily per diem rate determined by VAC based on the budget submitted by CBHC.

7.94 The residents of remaining long-term care beds at those facilities, as well as long-term care beds at the New Waterford Hospital, are charged per diems at a rate set by the Department of Health. The per diem may be paid by the resident and/or the Province depending on whether the individual is eligible for financial assistance.

7.95 CBHC receives revenues of over $7.8 million from its long-term care beds. CBHC staff indicated to us that the per diems received adequately cover the expenses of the long-term care beds.

7.96 *Preferred accommodations* - Nova Scotia residents are insured for ward accommodations at hospitals. Like most hospitals in the Province, CBHC has upgraded accommodations available for which patients are charged a preferred accommodation rate ($114 for a private room or $96 for a semi-private room at the regional site). Many patients will request preferred accommodations if they have a private insurer to cover the cost, thereby providing additional revenue to the hospital.

7.97 CBHC had revenues of $992,314 in 1998-99 from preferred accommodations. CBHC promoted accommodations with the value-added services of a pre-paid long distance calling card and daily television and newspaper. The process of registering and paying for preferred accommodations was also changed, and the rate was adjusted to be comparable with other hospitals in the Province. As a result, revenue increased to $1,289,461 in 1999-2000.

7.98 *Rental of space* - CBHC leases space in various buildings to physicians at what is considered to be the market rate for the area. As of March 31,2000, there were 25 physicians, as well as the Department of Health, renting a total of 10,400 square feet of space. Annual rental revenue amounts to approximately $300,000. Annual rental charges range from $11 to $34 per square foot. The higher rates result from the cost of leasehold improvements which are included in the rental charge.

7.99 *Collections* - The various departments providing uninsured services submit billing information to the Finance department usually on a monthly basis. All billings are done in the Finance department of CBHC. Accounts Receivable staff are responsible for reviewing outstanding

accounts and are under the supervision of the Accounting Manager. Staff periodically follow up on overdue accounts with telephone calls and second notices.

7.100 CBHC has established a policy of requiring a three-day deposit from non-insured patients requesting preferred accommodations. Many laboratory tests are performed on a cash only basis. These practices have reduced the amount and volume of receivables.

7.101 Much of CBHC's $18.3 million in revenues mentioned above is from Veterans Affairs Canada and from the Department of Health for long-term care. These payments are usually received within two to six weeks from the date of invoice. CBHC should explore opportunities of collecting these receivables on a more timely basis.

CONCLUDING REMARKS

7.102 The Board and management of the Cape Breton Healthcare Complex have taken their governance and management responsibilities very seriously and worked-diligently to meet those responsibilities. However, as noted in our prior audit of the Northern Regional Health Board (Chapter 7 of our 1999 Annual Report), deficiencies in planning at the Department of Health and delays in approval of plans and requests led to problems for the Complex. The most significant problem was the incurrence of large deficits which were ultimately funded by the Department of Health.

7.103 The Health Authorities Act will introduce significant changes to the relationship between the Department of Health and health sector boards. Those changes respond to many of the recommendations in this and our previous reports in the health sector such as more timely approval of funding and business plans, and improvements in performance reporting to the House of Assembly. However, legislation is only the first step in making those changes. Implementation of the legislation in a meaningful way remains a significant challenge.

7.104 The challenges faced by the Board and management of the Complex are not unique, and are faced by each of the other health care providers in the Province. One of these challenges is to ensure that high-cost acute care patient days are used appropriately. There is evidence that many acute care patient days, at the Complex and Province-wide, are being provided to patients who could be treated effectively in an alternate facility. Another challenge, well-documented in the health sector, is the need for state-of-the-art information systems which will require significant capital investment. Resolution of these and similar challenges will require a concerted effort by all who have responsibility for decision-making in the health sector.

7.105 The Cape Breton Healthcare Complex has assumed a leadership role in benchmarking and performance measurement initiatives. These efforts are commendable, and the Department of Health and the Complex should monitor and report these results to determine whether savings and/or better management have resulted. If so, these initiatives should be implemented in other Boards and the Department itself.

Appendix 7.1

CAPE BRETON HEALTHCARE COMPLEX
SUMMARY OF ACCOMPLISHMENTS
(INFORMATION PROVIDED BY MANAGEMENT - UNAUDITED)

- The Board of the Cape Breton Healthcare Complex faced the issues of amalgamation and created a Vision and Mission statement for the organization
- Specific Goals and Objectives for management and clinical staff were developed.
- Centralized management structure developed.
- Savings, following amalgamation, resulting from reductions in administrative and support areas of approximately $5 million.
- The Glace Bay Health Care Centre is fully operational and staffed by 6 physicians.
- Construction commenced on the Cancer Treatment Center with completion scheduled for late Summer 1998.
- Construction commenced on a new 67 bed long term care facility for Veterans and level II residents in Glace Bay with completion scheduled for Summer 1998.
- Consolidation of the Finance Department to the Regional Hospital site.
- Construction of a new home for 6 children located at the Children's Training Centre commenced, with opening scheduled for early 1998.
- Benchmarking initiative commenced with initial surveys in Human Resources, Housekeeping, Cataract Surgery, Orthopedic Surgery and Food Services initiated.
- The first Retinal Clinic outside of Halifax opened in Glace Bay. Initial workload identified 85 percent of the cases being seen would previously have had to receive treatment in Halifax.
- A new 67 bed nursing home in Glace Bay, Taigh Na Mara, accepted its first residents.
- The Cape Breton Healthcare Complex undertook the first complex-wide accreditation survey, received three year accreditation status. Extensive involvement of staff throughout the Complex on the teams resulted in both a positive accreditation and a better understanding of all aspects of service delivery within the organization.

Appendix 7.1 (Cont'd)

- A 21 bed long term care unit was established in New Waterford.
- The Cape Breton Healthcare Complex participated in a pilot project of the Conference Board of Canada outpatient satisfaction survey.
- Quality site benchmarking initiatives were completed in Food Services, Housekeeping, CT services, and Cardiac Surgery.
- External reviews were completed in Palliative Care and Hematology, and long range plans were developed for Cardiology and Neurology Services.
- The Complex joined a national purchasing group.
- A Clinical Financial Advisory Committee, comprised of eight representatives of medical staff and senior management, was initiated. The utilization of drugs was reviewed and action initiated to control escalating expenditures.

Exhibit 7.1

CAPE BRETON HEALTHCARE COMPLEX
PATIENT DAYS BY SITE AND TYPE
FOR THE YEAR ENDED MARCH 31, 2000

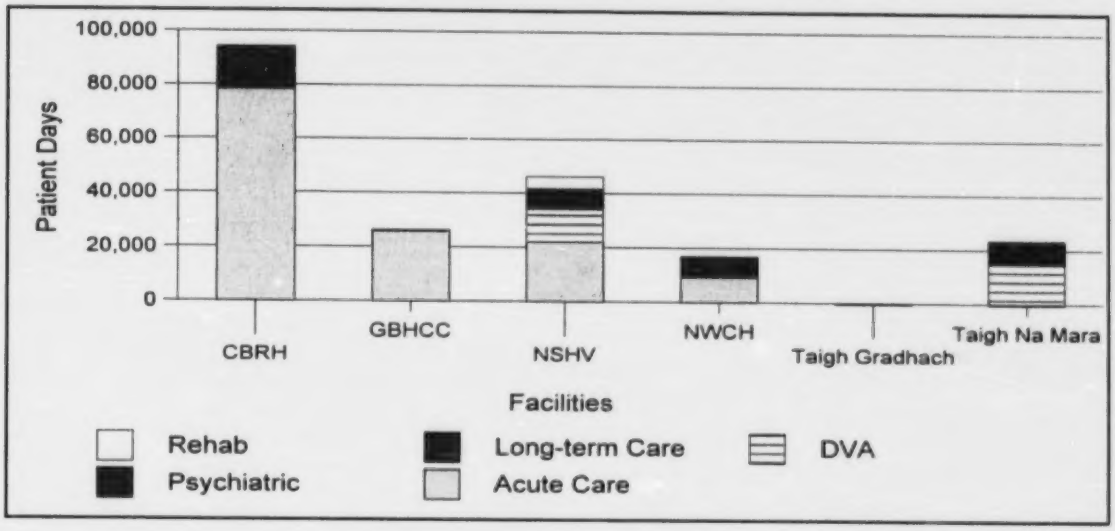


Exhibit 7.2

CAPE BRETON HEALTHCARE COMPLEX
TOTAL PATIENT DAYS BY TYPE OF SERVICE
1999 - 2000

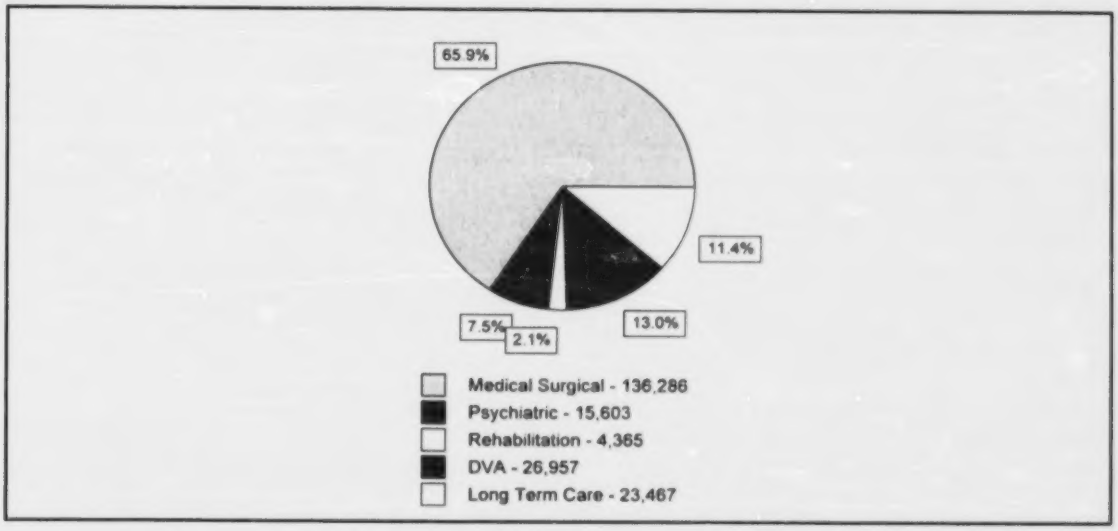


Exhibit 7.3

CAPE BRETON HEALTHCARE COMPLEX
STAFFING - FULL TIME EQUIVALENTS
MARCH 31, 2000

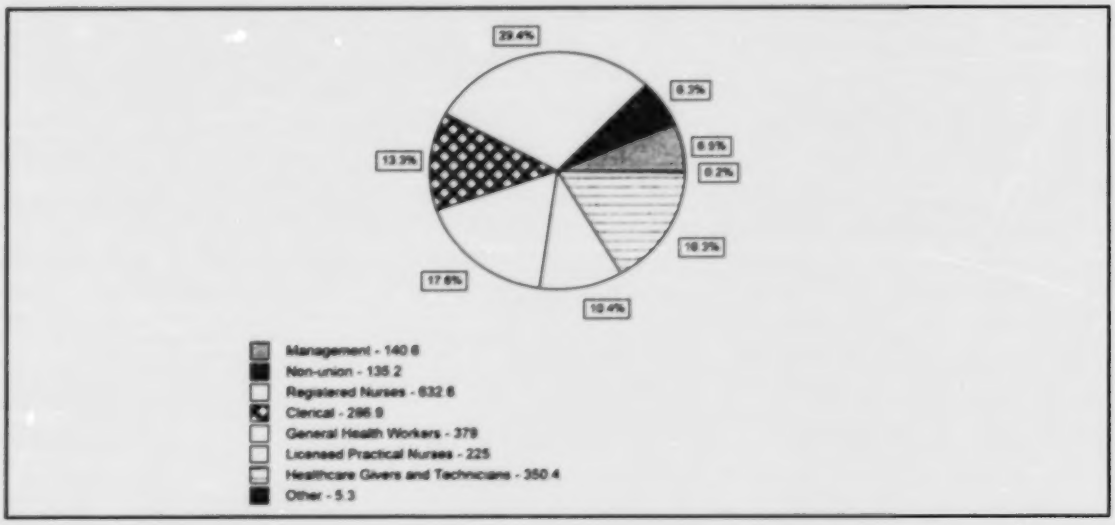


Exhibit 7.4

CAPE BRETON HEALTHCARE COMPLEX
REVENUES, EXPENDITURES AND ANNUAL DEFICIT

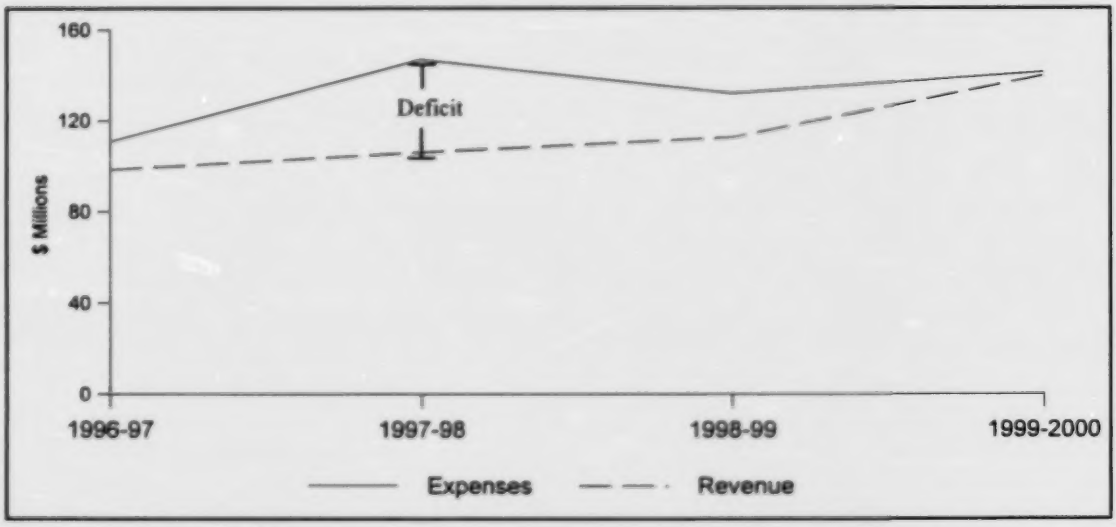


Exhibit 7.5

CAPE BRETON HEALTHCARE COMPLEX
ACCUMULATED OPERATING DEFICIT
(IN $ MILLIONS)

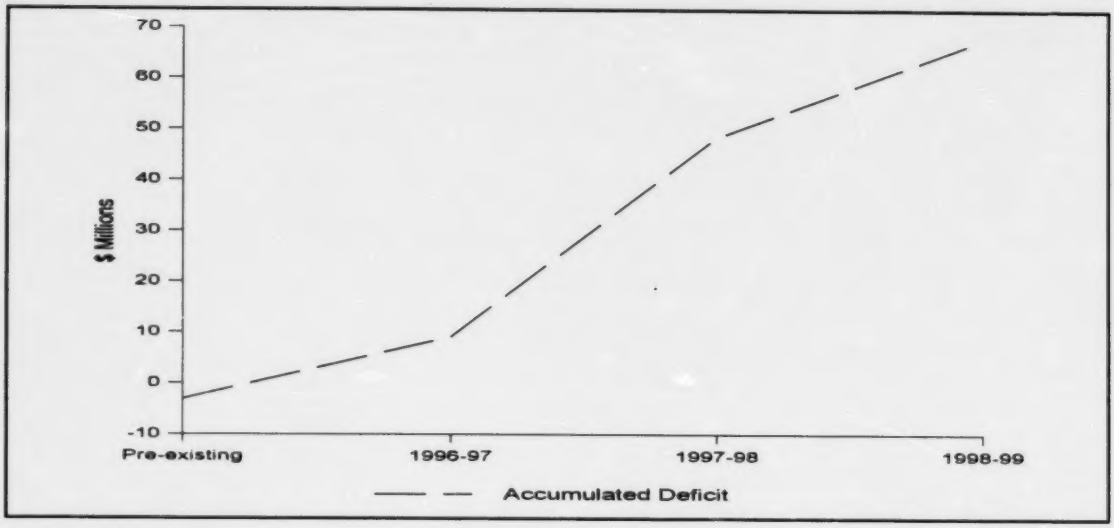


Exhibit 7.6

CAPE BRETON HEALTHCARE COMPLEX
COSTS OF NURSING OVERTIME AND ABSENTEEISM

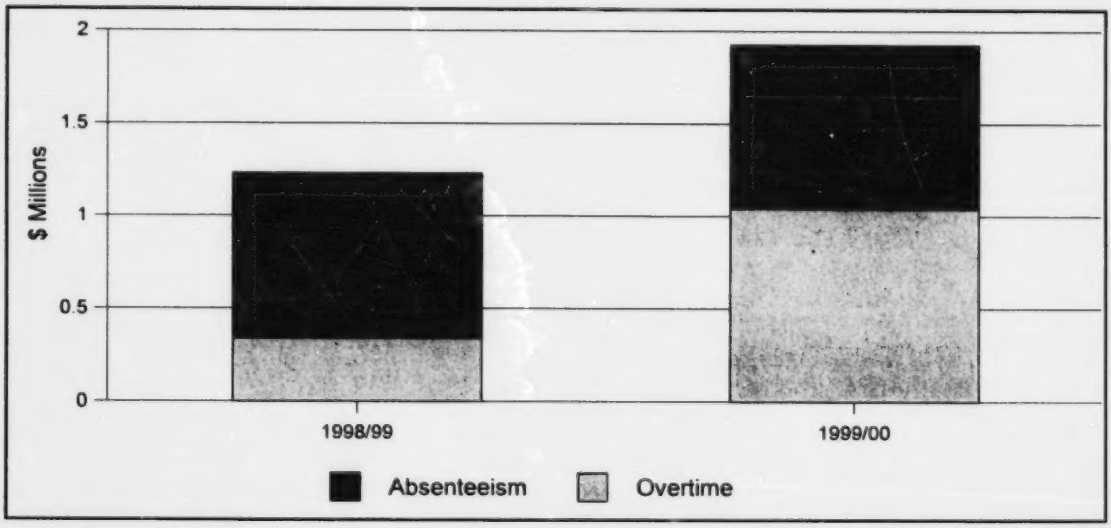


Exhibit 7.7

CAPE BRETON HEALTHCARE COMPLEX
EXTRACT FROM MONITORING REPORT - 2nd QUARTER - 1999-2000
(PREPARED BY CAPE BRETON HEALTHCARE COMPLEX)

1999/2000	1999-2000 YTD	1998-99 YTD
WAITING TIMES (in weeks unless otherwise noted):		
Cardio-Pulmonary Services		
EEG	6.8	4
Cardiac Ultrasound	14.9	18
Vascular Labs	5.1	6
Pulmonary Function	7.6	7
CT		
Avg. # Requisitions on hand	807	863
UTILIZATION		
% Same Day Surgery		
CBR	92	90
GBH	98	92
NWC	100	100
NSHV	95	91
% Day Surgery		
CBR	60	56
GBH	87	83
NWC	93	96
NSHV	85	82
% Total or Cases Emergency (after hours)		
CBR	9.8	10.3
GBH	0	0.1
NWC	0	0
NSHV	0	0
Average # Patients with LOS > 30 Days		
CBR	36	51
GBH	25	17
NWC	11	12
NSHV	16	19

Exhibit 7.8

CAPE BRETON HEALTHCARE COMPLEX
REVENUE FROM OPERATIONS
1999-2000

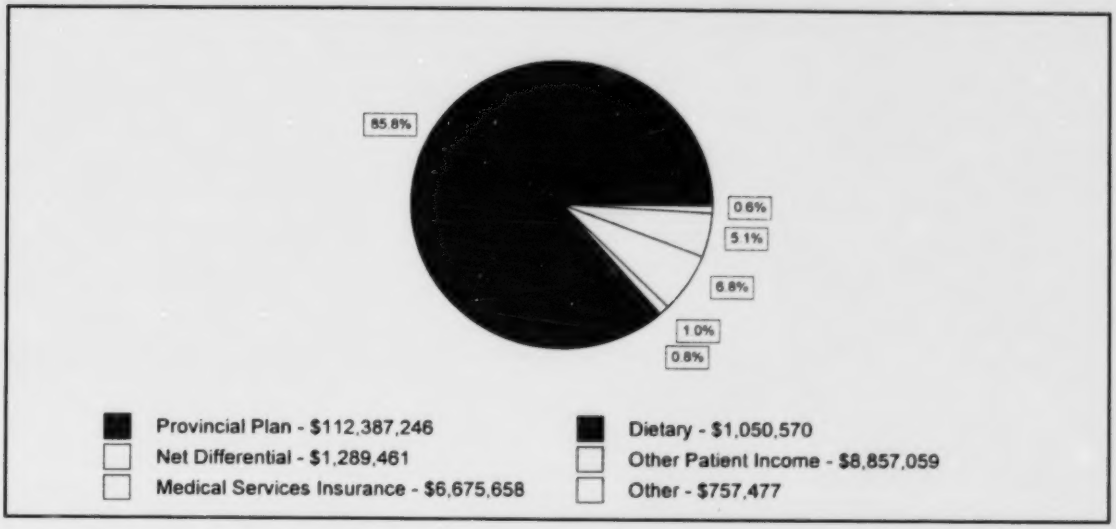


Exhibit 7.9

PROVINCIAL PATIENT DAYS DISTRIBUTION
FROM "TRANSITIONS IN CARE - NOVA SCOTIA DEPARTMENT OF HEALTH FACILITIES REVIEW"
(Volume 1, Annex 3, Page 17)

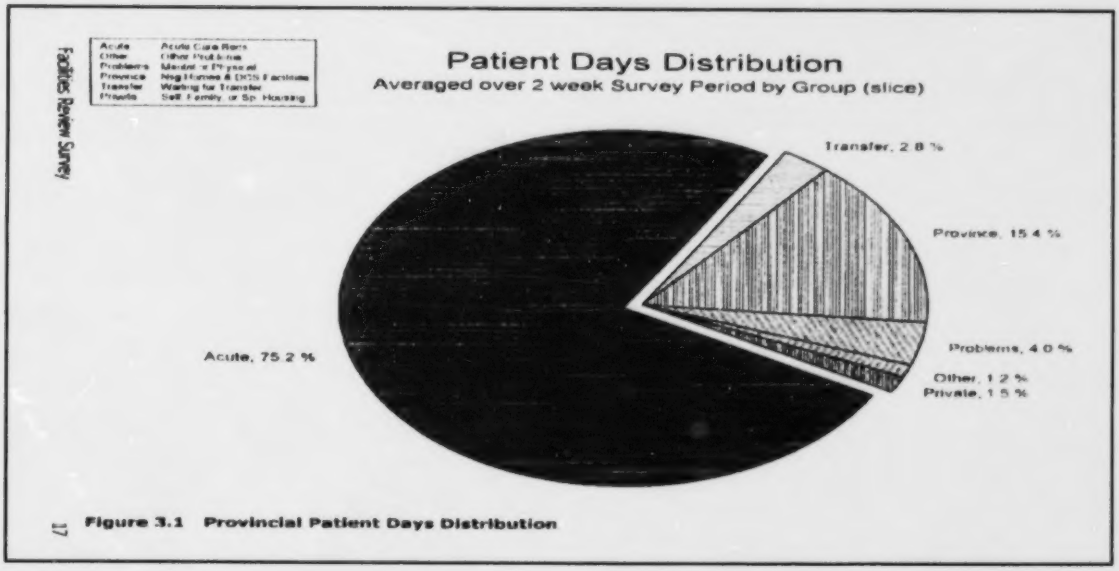


Exhibit 7.10

**REGIONAL PATIENT DAYS DISTRIBUTION
FROM "TRANSITIONS IN CARE - NOVA SCOTIA DEPARTMENT
OF HEALTH FACILITIES REVIEW"
(Volume 1, Annex 3, Page 18)**

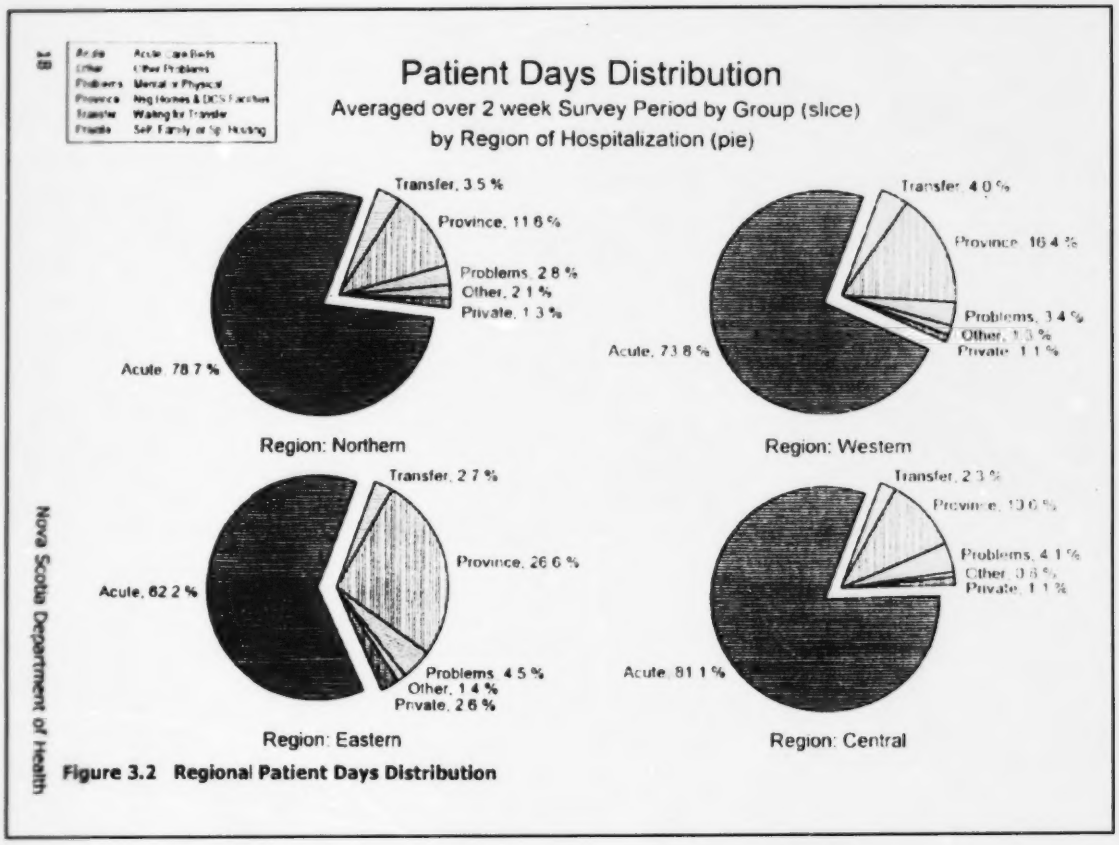


Figure 3.2 Regional Patient Days Distribution

8.

HEALTH - EMERGENCY HEALTH SERVICES

BACKGROUND

8.1 Emergency Health Services Nova Scotia (EHSNS) is a branch of the Department of Health. The mission of EHSNS is to develop, implement, monitor and evaluate pre-hospital emergency health services for Nova Scotians.

8.2 EHSNS is not a direct service provider of emergency health services. The day-to-day operation of emergency health services programs is delivered by contractors. Exhibit 8.1 summarizes the major programs administered by EHSNS and the associated contractors.

8.3 Emergency health service in Nova Scotia has undergone a significant transformation since the Department issued a major report on this sector of the health system in April 1994. At that time, the emergency health program consisted of ground ambulance services provided by private sector operators in 54 geographic areas who were subsidized by the Department of Health. The report found that service and training standards, and equipment maintenance were not adequate in some areas of the Province and that the Department lacked adequate information and processes to adequately regulate this industry.

8.4 In 1995, the Emergency Health Services Branch of the Department of Health was created. One of the first initiatives of the Branch was to replace the ambulance fleet over a three-year period at a cost of approximately $9.5 million.

8.5 EHSNS decided that it was necessary to consolidate the number of ground ambulance operators in the Province by purchasing existing private ambulance operators. The cost of acquiring private ambulance operators was $14.3 million. In January 1999, the Department signed a contract with a single operator, Emergency Medical Care Inc. (EMC), a subsidiary of Maritime Medical Care Inc. (MMC), which is now responsible for approximately 90% of the ambulance call volume in the province. Five other small ambulance operators remain in the Province. Operational statistics related to the ground ambulance operation are presented in Exhibit 8.4.

8.6 In 1996, EHSNS created a single, Province-wide communications and dispatch centre in Bedford and introduced an air medical transport program. The costs of these operations during the 1999-2000 fiscal year were $3.7 million and $5.4 million respectively. From 1996 to the present, several other programs and initiatives were introduced, including a paramedic training and certification program, a medical control initiative, a trauma program and a first responder program. The Branch maintains a well designed web site which contains useful information about the Branch at *www.gov.ns.ca/health/ehs/*.

8.7 The expansion of emergency health services has resulted in corresponding cost increases. The cost of emergency health services to the Province for the 1994-95 fiscal year was $13.6 million. Emergency health services costs in 1999-2000 were $53.3 million, net of user fees, and the budgeted net cost for 2000-01 is $49.2 million. Exhibit 8.2 summarizes EHSNS costs over a seven-year period.

8.8 The principal cost drivers of emergency health services are the medical standards, policies, protocols and procedures adopted by the Branch. For example, better qualified paramedics have resulted in increased salary costs. Decisions with respect to medical standards are based on investigations by the Medical Director of practices in other jurisdictions and reviews of clinical research. Final decisions on changes to medical standards are made by the Executive Director of the Branch with approval of Department senior management.

8.9 This was our first audit of emergency health services. This audit was conducted under Section 8 of the Auditor General Act.

RESULTS IN BRIEF

8.10 The following are the principal observations from our review.

- There is no legislation for the provision of emergency health services. It is important that EHSNS have explicit legislative authority to impose user fees, training, licencing, medical standards and other matters. In 1994, legislation was assented to but not proclaimed. We have recommended that legislation and regulations governing the activities of EHSNS, containing appropriate accountability provisions, be developed and enacted as soon as possible.

- EHSNS developed a strategic and operating plan in 1996 which includes the vision, mission, values, strategic goals, operating plans and specific initiatives planned for the next five years. The current operating plan covers the five-year period ending March 31, 2003. We found the strategic and operational planning to be thoughtful and comprehensive. The plan was last revised in February 1999 and should be updated in the near future. We have recommended that EHSNS report performance in accomplishing planned objectives to the House annually.

- The Branch has a formal, written contract evaluation process in place for the air medical transport program. We note that similar contract evaluation processes are not in place for the ground ambulance and communications and dispatch centre contracts. We have recommended that plans for periodic written contractor evaluations for the ground ambulance and communications and dispatch centre be developed as soon as possible.

- The ambulance lease agreement requires ambulances to undergo regular preventive minor and major maintenance. We examined the maintenance records for 10 ambulances consisting of 148 minor and 19 major maintenance reports. We found that minor and major preventive maintenance was not always being performed within the kilometre limits specified in the lease agreement. Failure to perform preventive maintenance when required may lead to a reduction in rebates at the end of the lease term. At the time of our audit, there were outstanding disagreements with the contractor over the condition of 47 of 90 returned ambulances which eventually resulted in the loss of $562,000 in rebates. The Department and EMC had not established which entity would be responsible for the lost rebates. Department management has informed us that controls have been established to prevent the loss of rebates in the future.

- EMC was selected as the preferred contractor for ground ambulance services on a sole-sourced basis. We were informed by Department staff that a public request for proposals was not issued because the Department lacked financial and operational

data upon which to base a request. The reason for accepting EMC as the preferred operator was strongly influenced by Executive Council's preference for a Nova Scotia based operator. There does not appear to be a written evaluation of EMC as a suitable candidate for a Province-wide ground ambulance operator against predetermined evaluation criteria notwithstanding that EMC was a new company and neither EMC nor the parent company (MMC) had any previous experience in the ambulance business. There also does not appear to have been an analysis of the costs and benefits associated with alternative service delivery by a non-profit or government agency.

- Contractor compliance with the terms of the ground ambulance contract is controlled through a system of performance requirements, incentives and penalties. The most significant of these are ambulance response times and paramedic qualifications. The reporting of monthly performance indicators by EMC to measure contractor compliance with response time performance was under development at the time of our audit. The ground ambulance contract also calls for penalties, commencing in the 2000-01 fiscal year, for certain performance failures. A system for capturing and reporting performance failures had not been fully developed at the time of our audit.

- Prior to 1995, ambulance services were provided by private sector operators in approximately 54 geographic regions in Nova Scotia. To facilitate the transfer to a single operator, 34 existing ambulance operations were purchased at a cost of $14.3 million. Our review of this transaction revealed significant deficiencies in documentation and accountability. As a result, we were not able to reach a conclusion on whether these transactions were carried out with due regard for economy.

- We found a lack of clear direction from EHSNS to EMC identifying situations where EMC is required to comply with Provincial procurement policy and we have recommended that such direction be documented.

- User fees are charged for ground ambulance and air medical transports. There is no legislative authority governing the levy of these user fees. We found the process for establishing ground ambulance and inter-provincial billing rates for air medical transport to be well researched and documented. Although rates charged are not always based on the full cost of services provided to users of the system, there is a documented rationale for the rates used.

AUDIT SCOPE

8.11 The objectives of this assignment were to determine:

- the adequacy of the accountability and financial management framework of the Branch and its contractors to the Minister, Deputy Minister and the Legislature;

- whether the administration, management and evaluation of service contracts, administered by the Branch, are conducted with due regard for economy and efficiency;

- the adequacy of the administration, management, accounting and control systems over the ambulance fleet and other equipment administered by the Branch or its contractors;

- whether procurement systems, policies, procedures and controls provide due regard for economy and efficiency, and compliance with government procurement policies;

- whether the acquisition of private ambulance operators was administered with due regard for economy and efficiency; and

- the services subject to user fees, the basis upon which fees are established and whether the Province is assessing and collecting all the revenues and user fees to which it is entitled.

8.12 Audit criteria developed for this assignment were discussed with senior management of the Branch at the outset of the audit and are presented in Exhibit 8.3. Our audit approach included interviews with staff of the Branch and Emergency Medical Care Inc., and detailed examination of contracts, files, reports and other documentation.

8.13 The Audit and Consulting Section of the Department of Health conducted a review of selected areas of the EHSNS Branch in 1998. At the time of our audit, Audit and Consulting was conducting a follow-up review of their 1998 report and auditing certain aspects of Emergency Medical Care Inc. We reviewed the reports and working papers of the Audit and Consulting Section as part of this audit and collaborated on certain aspects of fieldwork completion. Audit and Consulting had not released a final report on the recent audit work at Emergency Medical Care Inc. at the time of our audit.

PRINCIPAL FINDINGS

Accountability and Financial Management

8.14 *Background* - The Executive Director of EHSNS is a member of the senior management team of the Department. Accountability reporting by EHSNS to the Minister and Deputy Minister is the same for all branches of the Department.

8.15 Program delivery of emergency health services is provided through contractors. Contractual arrangements dictate contractor accountabilities. Contracts for ground ambulance services, communications and dispatch, ambulance acquisitions and air medical transport constitute the major contracts of the EHSNS Branch.

8.16 *Legislation* - The Minister of Health administers approximately 40 Provincial acts giving the Minister broad powers over various aspects of the health care system. Currently, there is no legislation for the provision of emergency health services. It is important that EHSNS have explicit legislative authority to impose user fees and training, licencing and medical standards. We have recommended that legislation and regulations governing the activities of EHSNS, and an appropriate accountability framework for the program, be developed and enacted as soon as possible.

8.17 In 1994, emergency health legislation (Bill 96), which called for services to be administered through an independent agency, was assented to by the House. This Act was never proclaimed. In our 1996 Annual Report, we indicated that the Act was being redrafted to address deficiencies in the area of accountability. Changes to the Act were not subsequently introduced to the House.

8.18 *Planning processes* - EHSNS first developed a strategic and operating plan in 1996. The plan includes statements of EHSNS vision, mission, values, and strategic goals and an operating plan that outlines specific initiatives planned for the next five years. The plan has been revised four times since 1996. The current operating plan covers the five-year period ending March 31, 2003.

8.19 We found EHSNS strategic and operational planning to be thoughtful and comprehensive. EHSNS reviews the plan on a regular basis. Completed initiatives are removed from the plan. Emerging initiatives are added to an updated plan. Thus the plan is a "living" document which retains its relevance over time.

8.20 The strategic and operating plan was last revised in February 1999. We have recommended that the plan be updated in the near future.

8.21 The 1994 study of emergency health services recognized that paramedics spend a significant percentage of their time on stand-by rather than responding to an actual emergency. The study recommended the expansion of paramedic health care activities. For example, expanded services might include the delivery of health prevention programs. These initiatives had not been developed beyond the conceptual stages by EHSNS. Because of potential savings to the health sector as a whole, we have recommended that the costs and benefits of these initiatives be investigated in more depth and implemented if appropriate.

8.22 EHSNS does not prepare a document that periodically summarizes whether planned initiatives were accomplished as intended. Rather, the strategic and operating plan is simply updated as circumstances and plans change. A document that summarizes Branch accomplishments against planned performance would enhance accountability for EHSNS. We have recommended that such a document be prepared annually.

8.23 *Financial management and budgeting* - Senior management of the Department of Health reviews and challenges budget submissions from all sections of the Department including EHSNS. There is no formal documentation of this review and challenge process.

8.24 Financial reporting and forecasting by the Branch to Department senior management follows a standardized monthly process common for all branches of the Department and across government. In addition, there is regular financial reporting by contractors to EHSNS pursuant to the terms of the applicable contracts.

8.25 We examined a financial report for the EHSNS Branch for the month of March 2000 which indicated actual expenditures were significantly over budget. We found explanations for budget variances were highly summarized in this report. We had expected a greater level of detail in the analysis of budget variances and the remedial action planned. We were informed that because of the wide distribution of the monthly financial reports across the Department (distributed to 40 to 50 people), budget variances were dealt with verbally in more depth at meetings of senior management.

Performance Reporting and Benchmarking

8.26 Although there are clear accountability reporting requirements by contractors to EHSNS, there is no requirement for written outcome or operational reporting by EHSNS to senior management of the Department. Likewise, the Department does not table an annual report with the House of Assembly containing EHSNS performance information. We recommended that the Department prepare an annual report, including EHSNS activities, for submission to the Minister and the House.

8.27 EHSNS is a member of the National Association of Public Utility Models (NAPUM), an association of emergency medical service organizations headquartered in the United States. EHSNS has recently submitted operational data for the Nova Scotia ground ambulance program to NAPUM for the purpose of benchmarking cost and performance data against other members of the organization. This benchmarking initiative had not been concluded at the time of our audit. This initiative has the potential to provide evidence concerning the economy, efficiency and effectiveness of emergency health services in Nova Scotia.

Contract Administration

8.28 *Background* - As indicated above, all major EHSNS programs are delivered under contract by third party providers. EHSNS is responsible for regulating the delivery of emergency health services and monitoring compliance with the various service delivery contracts. We focused our attention on the ground ambulance, communication and dispatch, and air medical transport contracts. The ground ambulance contract accounted for approximately $40 million of the $53 million in total EHSNS expenditures for the 1999-2000 fiscal year.

8.29 All programs have detailed signed contracts which define the significant rights and responsibilities of the contracting parties including performance requirements, term of contract and renewal provisions, personnel qualifications, financial arrangements, contract termination and dispute resolution mechanisms. Exhibit 8.5 summarizes the major provisions of the ground ambulance contract with EMC.

Ground Ambulance and Communication and Dispatch Contract

8.30 *Award of contracts* - EMC was selected as the preferred contractor for ground ambulance services on a sole-sourced basis. In 1997, the Department approached Maritime Medical Care Inc. for an expression of interest in acquiring and operating the entire Provincial ground ambulance operation. An out-of-Province company also expressed interest in the Provincial ground ambulance operation. We were informed by Department staff that a public request for proposals was not issued because the Department lacked financial and operational data upon which to base a request.

8.31 Maritime Medical Care Inc. was selected as the preferred ground ambulance operator based on an "expression of interest" letter dated April 16, 1997. Department staff informed us that MMC's letter was approved by Executive Council and executed by the Minister of Health sometime in 1997 but we were not able to locate a signed approval. EMC managed the ground ambulance operation under the terms of the letter of intent until a more formal contract was finalized in January 1999 with Emergency Medical Care Inc., a subsidiary of MMC.

8.32 The reason for accepting MMC as the preferred operator was strongly influenced by Executive Council's preference for a Nova Scotia based operator. There does not appear to be a written evaluation of EMC as a suitable candidate for a Province-wide ground ambulance operator against predetermined evaluation criteria, notwithstanding that EMC was a new company and neither EMC nor its parent company (MMC) had any previous experience in the ambulance business. There was also no analysis of the costs and benefits associated with alternative service delivery by a non-profit or government agency.

8.33 A Province-wide communication and dispatch operation was created and operated by another company under a contract dated February 1997. Section 11.12 of the EMC contract permitted EMC to negotiate assumption of dispatch operations from the contractor which EMC completed in April 1999. Contractual arrangements with EMC for the operation of the communication and dispatch operation were documented in an amendment to the original January 1999 ground ambulance contract.

8.34 *Contract payments* - Contract payments to EMC are made in accordance with a base budget that is fixed for the term of the contract based on defined service levels. However, the contract permits payment adjustments for price increases in certain costs including wages, fuel and facility rentals and for service volume increases above threshold levels stipulated in the contract.

8.35 *Contractor performance and monitoring* - There is a high degree of involvement in the monitoring of ground ambulance and communication and dispatch contracts by EHSNS staff. Many

EHSNS staff work from an office located in the same building and on the same floor as EMC offices. Contact between EHSNS and EMC staff is on a daily basis with multiple contact points in the organizational hierarchy of both organizations.

8.36 A Contract Monitoring Committee has been created with membership from both EHSNS and EMC. At the time of our audit this group was developing a standard reporting framework for contractor performance monitoring.

8.37 Contractor compliance with the terms of the contract is controlled through a system of performance requirements, incentives and penalties. The most significant of these are ambulance response times and paramedic qualifications. Although the contractor had been reporting data on response times for several years, the reporting of monthly performance indicators by EMC to measure contractor compliance with response time performance was under development at the time of our audit. The ground ambulance contract also calls for penalties, commencing in the 2000-01 fiscal year, for certain performance failures. A system for capturing and reporting performance failures had not been fully developed at the time of our audit.

8.38 *Contract evaluation* - There is no formal contract evaluation process for the ground ambulance and communication and dispatch contracts. We have recommended that a contract evaluation process be implemented as soon as feasible.

8.39 *HST status* - In the past, EMC paid Health Services Taxes (HST) on taxable purchases and collected HST on billings to EHSNS. In April 2000, EMC made a voluntary disclosure to the Canada Customs and Revenue Agency to have its HST status changed retroactive to April 1997. The disclosure was due to a change in interpretation of the company's tax status established at the time of incorporation. EMC now charges HST on sales to EHSNS and is eligible for refunds of HST on taxable purchases. Government is able to recover HST paid from the Federal government through the normal HST rebate process. This change in tax status has led to the recovery of $2.9 million in HST paid from April 1997 to March 2000 and is expected to save an estimated $1.0 million per year in the future. The question of who should receive the benefit of these savings, EHSNS or EMC, had not been resolved at the time of our audit. The $2.9 million in savings for the April 1997 to March 2000 period has been placed in an interest-bearing trust account pending final resolution of this matter.

Air Medical Transport Contract

8.40 *Award of contracts* - The award of the air medical transport contract was included in our 1996 Annual Report as part of a government-wide audit of Provincial procurement transactions. A request for proposals (RFP) was issued in January 1996 but none of the four supplier proposals submitted met RFP requirements. The Department negotiated with the top two vendors and eventually contracts with both vendors were approved by Executive Council as sole-sourced procurements.

8.41 *Contract payments* - A contract, providing a helicopter and flight crew, was signed on May 1, 1996 for a five-year term with earned extensions. The contract calls for payments starting in 1996 of $38,000 per month plus $1,670 per hour of flight time. The contract provides for annual increases in the base fee. EHSNS is responsible for operating costs including fuel and facilities. EHSNS also has a contract which provides a backup aircraft in the event that the contracted helicopter is unavailable.

8.42 A second contract was also signed on May 1, 1996 and is for a five-year term with earned extensions. This contract provides program management and the air medical crew. The contract calls for payments of $9,000 per month plus an annual payment of $40,000.

8.43 *Contractor performance and evaluation* - EHSNS meets with both contractors on a regular basis to monitor operational activities. Annually, a formal written evaluation of contractor performance is undertaken based on performance criteria and accountabilities set out in the contracts. The primary performance criteria are response times stipulated in the contracts. Results of the evaluation are reviewed with the contractors who develop action plans to address any deficiencies noted. We examined two contract evaluation documents which appeared to be thorough and timely. The Branch should be commended for having formal, written contract evaluation processes in place.

8.44 There is regular performance reporting by the air medical transport contractors to EHSNS.

Fleet and Equipment Control

8.45 *Background* - The focus of our audit on fleet and equipment was directed at leased ambulances and equipment owned by EHSNS for the ground ambulance and communications and dispatch programs.

8.46 All major fleet and equipment acquisitions for the ground ambulance and communications and dispatch programs are leased or purchased by EHSNS. The ground ambulance contractor, EMC, is responsible for procuring disposable supplies required for the ground ambulance program.

8.47 EHSNS has leased ambulances from a contractor since 1995. The latest lease agreement, signed in December 1997, calls for the lease of 150 ambulances at a cost of $63,000 each, over a three-year term. Ambulance chassis are purchased from a manufacturer, modified by the lessor and delivered to EHSNS. EHSNS is also entitled to 50% of the eventual sales proceeds of returned ambulances. The lessor sells returned ambulances overseas because of prohibitions on the sale of used ambulances in Canada. Department management informed us that the Department has received approximately $350,000 in proceeds from the resale of ambulances. There were approximately 130 ambulances and 9 administrative support vehicles in service at the time of our audit.

8.48 EHSNS is entitled to a rebate from the lessor of up to $9,450 per ambulance at the end of the lease term if mileage is below 200,000 kilometres and if contract maintenance standards have been maintained. Under the ground ambulance contract, EMC is responsible for mileage and management of ambulance maintenance. Subject to certain limitations in the contract, EMC is required to reimburse EHSNS for any loss of rebate caused by a failure to meet mileage and maintenance standards.

8.49 *Ambulance maintenance* - Under the ground ambulance contract, EMC is responsible for fleet and equipment maintenance. The lease contract contains detailed maintenance requirements. Failure to maintain the ambulance fleet in accordance with the lease requirements may result in the loss of rebates on returned ambulances. EMC follows a fleet manual developed by EHSNS as a guide for maintenance activities. Accidents and damage to ambulances are documented in incident reports and are submitted to EHSNS.

8.50 *Preventive maintenance* - Ambulances require preventive minor maintenance every 90 days or 6,000 kms and major maintenance annually or every 40,000 kms. Maintenance work is documented on maintenance reports. We examined all maintenance records for 10 ambulances consisting of 148 minor and 19 major maintenance reports. We found that minor preventive maintenance was not being performed within the 6,000 km limit in 50% of the cases examined. We found that major preventive maintenance was not being performed within the 40,000 km limit in 37% of the cases examined. We have recommended that EHSNS establish a more rigorous monitoring of EMC compliance with maintenance standards.

8.51 *Ambulance disposals at end of lease term* - At the end of the lease term, ambulances are returned to the lessor by EMC. The lessor is responsible for submitting an inspection report to EHSNS within 90 days of return. The status of returned ambulances and the related rebate is audited periodically by EHSNS.

8.52 At the time of our audit, there were outstanding disagreements with the lessor over the condition of 47 of 90 ambulances returned since the inception of the lease agreement. Resolution of the disagreements eventually resulted in the loss of $562,000 in rebates. Department management informed us that EMC started to assume control of these ambulances from previous operators in May 1997. Department management also informed us that more recent ambulance returns, for vehicles that were under the control of EMC for the entire lease term, have been well maintained with no loss of rebates. The Department and EMC had not established which entity would be responsible for the lost rebates.

8.53 EMC has commented that the current system provides for conflict as EHSNS is motivated to seek a high rebate and the lessor is motivated to keep the rebate low. We recommended that a dispute resolution mechanism be established with the lessor to avoid delays in settling rebates in the future. We understand that the Department has taken steps to improve controls in this area.

8.54 The lessor reports to EHSNS sales of returned ambulances on a periodic basis. These reports are reviewed and verified by EHSNS and profit sharing amounts settled.

Purchase of Private Ambulance Operators

8.55 *Background* - Prior to 1995 there were approximately 54 geographic ambulance regions in Nova Scotia. Ambulance services were provided by private sector operators pursuant to a contract with the Ambulance Operators Association of Nova Scotia (AOANS). The Department of Health subsidized ambulance services on a per trip basis amounting to approximately $13 million annually.

8.56 Pursuant to recommendations of a 1994 study on emergency health services, the Department moved to consolidate ambulance operations to a smaller number of operators. The motives for consolidation were concerns about coordination between operators, a lack of continuity in the event that an operator ceased operations, uneven management and service quality between operators and the fragmentation that resulted from regulating a large number of operators. In addition, the Department wanted to increase the efficiency, medical effectiveness and operational capacity of ambulance operations in the Province to a "high performance" system modelled after similar systems in the United States.

8.57 Initially the Department explored a voluntary consolidation of ambulance operations by the existing ambulance operators. Under this approach, ambulance operators who wished to stay in the industry would purchase other operators who wished to leave.

8.58 Eventually, Maritime Medical Care Inc. was selected as the primary operator of the ground ambulance system in the Province based on an April 1997 letter of intent. Emergency Medical Care Inc., a subsidiary company of MMC, operated the ground ambulance system, based on the letter of intent, until a final contract was signed in January 1999.

8.59 While negotiations for a formal ground ambulance contract were underway, a solicitor acting for EHSNS negotiated, verbally, the purchase price and other terms and conditions of sale with each of the AOANS operators. The solicitor then instructed EMC to finalize the sale with each operator and execute the necessary legal and contractual documents based on the verbal agreements. Instructions to EMC, concerning price and other terms and conditions to be included in the written agreements, were verbally given to EMC by the EHSNS solicitor.

8.60 Final contractual arrangements for the individual acquisitions were documented in formal legal agreements and other supporting documents prepared by EMC solicitors. There were also reviews carried out by an accounting firm in certain cases. The reviews consisted of inventory procedures for fixed assets, equipment and supplies; enquires to detect liens and unrecorded obligations and contingencies; and an examination of labour contracts and lease agreements.

8.61 EMC was involved in the purchase process because, under the terms of the April 1997 intent letter, the acquisition cost was to be recorded as an investment by EMC and amortized over eight years. The transaction would therefore be recorded as an expenditure of the Department over the eight-year amortization period. The acquisition process was essentially complete by December 1997, but a contract had not yet been finalized.

8.62 In the fall of 1998, the Department decided to reimburse EMC the cost of acquiring the private ambulance operators. We were informed by Department staff that the reason for the Department's decision to pay the acquisition cost to EMC was that this arrangement had become a major barrier in finalizing a ground ambulance contract acceptable to both parties. The purchase cost, including interest, amounted to $14.3 million, consisting of 34 individual acquisitions.

8.63 We examined three individual purchase transactions totalling $3.5 million. The sample was based on large dollar value transactions. Two of the acquisitions were asset purchases and one was a purchase of shares. We examined the purchase and sale agreements and files of EMC and EHSNS related to the transactions.

8.64 *Lack of documentation* - Our review revealed significant deficiencies in EHSNS documentation leading up to the final purchase agreements. As a result of these deficiencies, we were not able to reach a conclusion on whether these transactions received appropriate approval by senior staff of the Department or whether the transactions were carried out with due regard to economy.

8.65 The solicitor acting for EHSNS formulated a purchase price for an individual operation using a base price per ambulance times the number of ambulances in the operation. The price per ambulance was based on a few open market purchase and sale transactions that took place in early 1997. The base amount was then adjusted for a variety of matters such as condition of facilities and equipment, the profitability of the operation, goodwill, quality of management, whether management and staff would be rehired by EMC and staff experience and training. The Department also decided to reimburse legal and professional fees incurred by the private ambulance operators and EMC resulting from the acquisition activity. In some cases the formulation of a purchase price was complicated because the ambulance operation was part of a larger funeral business.

8.66 There was no documentation in EHSNS or EMC files for the three purchase transactions we examined which explained how these principles were applied to justify an estimated purchase price for an individual acquisition. We expected to find calculations of estimated purchase price based on the acquisition principles described above with explanations of differences between calculated amounts and the final purchase price. We also expected to find an analysis of historical operating results and cash flows of the operation, with comparisons to the purchase price eventually agreed upon.

8.67 Department files also lacked key written approvals by Department senior management including the general principles to be applied in estimating purchase amounts, the approval of the verbal agreement between the operator and the solicitor acting for EHSNS, the final purchase and sale agreements and the decision to reimburse legal and professional fees to EMC and the private ambulance operators.

8.68 Approval of the $14.3 million payment by the Department to EMC in January 1999 was not explicitly authorized by Order in Council. The transaction was included in a Department additional appropriation request for the 1998-99 fiscal year, together with several other over-expenditure items totalling $53.3 million. The request was made in May 1999. Management of the Department has indicated that Executive Council was verbally informed of the reasons surrounding the $14.3 million payment to EMC at the time the January 19, 1999 ground ambulance contract was authorized, and that Executive Council approval of the acquisition costs, although not formally documented, was implied in the approval of the ground ambulance contract.

Procurement

8.69 *Background* - EHSNS expenditures for the year ended March 31, 2000 were $59.1 million, consisting of $0.7 million for salaries, $13.8 million for operating costs and $44.6 million in contract payments.

8.70 Major acquisitions of fleet and equipment are transacted by EHSNS in consultation with the Purchasing Agency. EMC is responsible for operating expenses associated with the ground ambulance and communication and dispatch operations.

8.71 The Audit and Consulting Section of the Department examined the procurement practices of EHSNS during their 1998 audit and had completed interim work on EMC procurement practices during the 1999-2000 fiscal year. We reviewed the 1998 working papers of the Audit and Consulting section on procurement and an interim report on the 1999-2000 audit of EMC procurements. There were no major findings reported.

8.72 We tested a sample of EHSNS expenditures for the 1999-2000 fiscal year. We also interviewed EMC staff to assess the economy of their purchasing policies and practices.

8.73 *Provincial Procurement Policy* - Contractors are not normally required to comply with the Policy on Government Procurement. Accordingly, there are no provisions in the major contracts administered by EHSNS that require this. Staff of the Procurement Branch of the Department of Finance informed us that if a contractor purchases goods and services where title to goods rests with the Province, then the contractor is deemed to be acting as a purchasing agent of the Crown and is therefore subject to Provincial procurement policy. This policy interpretation is designed to prevent departments from using contractors to circumvent Provincial procurement policies.

8.74 Ambulances, medical and mobile communication equipment and equipment for the communications and dispatch centre are owned or leased by EHSNS. The contractor, EMC, has a licence to use these assets over the term of the contract. Likewise, EMC and EHSNS are joint beneficiaries under major lease agreements, maintenance agreements and insurance policies.

8.75 Major equipment is procured directly by EHSNS in accordance with Provincial procurement policies. However, contract provisions with EMC are silent on the issue of compliance with Provincial procurement policy for the goods and services procured by the contractor, especially in cases where EMC and the Province receive joint entitlements. There are no directives from EHSNS to EMC providing guidance on this matter and EMC did not have written procurement policies at the time of our audit. EMC management has indicated that the company now has written procurement policies. We have recommended that EHSNS provide express direction to EMC on the types of procurement and circumstances that would require EMC compliance with Provincial procurement policies.

8.76 *Expenditure testing* - Our expenditure testing illustrates the need for policy direction on contractor compliance with Provincial procurement policies. We examined six EHSNS expenditure

categories during the 1999-2000 fiscal year that totaled $41.8 million. These expenditures were primarily large contract payments for ground ambulance, communication and dispatch and air medical transport, as well as ambulance and equipment purchases. We found one procurement transaction where there was joint entitlement to services by EMC and EHSNS and where a competitive procurement process was not followed. This sample item comprised procurements made by EMC and later reimbursed by EHSNS for "flow thru" payments under the communication and dispatch contract. The purchases consisted of equipment, professional fees, lease expenses for facilities and equipment, maintenance agreements on equipment and other goods and services which totalled approximately $0.5 million for the year. The Audit and Consulting Section of the Department was also auditing similar transactions under the ambulance contract with EMC at the time of our audit.

User Fees

8.77 *Background* - User fees are charged for ground ambulance and air medical transports. Ambulance responses which result in treatment but no transport of patients ("treat and release" encounters) are not subject to a fee. Air medical transports for residents of other Canadian provinces are billed, at a negotiated rate, to the residents home province based on contracts with the Department. Exhibit 8.6 summarizes the fee rate structure and explains the basis for the fee charged.

8.78 *Authority to impose user fees* - There are no regulations governing the imposition of user fees by EHSNS. The current user fee rate structure was developed by EHSNS and approved by Executive Council as part of the budget process. We have recommended that regulations, under appropriate legislation, for the billing and collection of user fees be developed.

8.79 *Establishing user fee rates* - We found the process for establishing user fee rates to be well researched and documented. The fee for ground ambulance services to Nova Scotia residents of $85 is based on 20% of the estimated annual operating cost of the service. The Canada Health Act prohibits the charging of user fees for medically necessary health services. Therefore, Nova Scotia residents are only charged a user fee for the transportation component of operating costs which is deemed to be 20% of total operating costs. However, an analysis has not been prepared which substantiates this percentage. Billing practices in other provinces and historical practices are also considered in determining the percentage of total costs to be billed.

8.80 Rates charged to New Brunswick and Prince Edward Island residents for air medical transport services are based on the estimated cost of air transports by the two provinces. The billing rates, pursuant to the latest signed contract, are $8,500 and $10,850 per transport respectively.

8.81 *Billing and collection practices* - Except for billings to the provinces of New Brunswick and Prince Edward Island, the collection of user fees is the responsibility of EMC pursuant to the terms of the ground ambulance contract. Policy governing rate structures and billing practices is established by the Department.

8.82 EMC is expected to remit to EHSNS all user fees collected up to 75% of fees billed. If collections fall below 75% of amounts billed, then EHSNS bears the cost of the uncollected user fees and has the right to terminate the collection arrangement. Collections by EMC in excess of the 75% billed are shared equally by the contractor and EHSNS. The value of user fees remitted to EHSNS by EMC for the 1999-2000 fiscal year was approximately $4.4 million and is estimated to increase to $5.9 million in 2000-01 because of rate changes implemented in April 2000.

8.83 *Air medical transport interprovincial contracts* - Residents of the provinces of New Brunswick and Prince Edward Island sometimes use the air medical transport services of EHSNS. Fees are billed to the resident's home province based on contracts negotiated with these two

provinces. The billing and collection of air medical transport services are administered directly by EHSNS. Inter-provincial collections by EHSNS for the 1999-2000 fiscal year were approximately $400,000.

8.84 Formal contracts for the billing of air medical transport costs to these provinces expired on March 31, 1999. New contractual arrangements were being negotiated at the time of our audit. We have recommended that contractual arrangements with New Brunswick and Prince Edward Island for the provision of air medical transport services be concluded as quickly as possible.

8.85 *Billing and collection practices* - We reviewed the billing and collection practices of EMC and suggested improvements to ensure completeness of billings. Billing input documents should be reconciled with data from the computerized dispatch system.

8.86 EMC has no written collection policies. Overdue ground ambulance billings are followed up monthly by letter. Accounts over 160 days are forwarded to a collection agency.

8.87 EHSNS bills air medical transport fees monthly to New Brunswick and Prince Edward Island. Overdue air ambulance billings are followed up by EHSNS through phone calls and correspondence.

8.88 The ground ambulance contract contains audit provisions permitting the Department to examine billing procedures and controls. A review of EMC billing and collection practices by the Audit and Consulting Section of the Department was underway but not finalized at the time of our audit.

CONCLUDING REMARKS

8.89 There has been a significant transformation of emergency health service delivery in Nova Scotia since 1994. Emergency health service delivery has evolved from an uncoordinated, fragmented system with uneven service and medical quality to a state-of-the-art, high performance system. The use of performance-based contracts with the private sector, with penalty and incentive provisions, is a service delivery method unique within the Department of Health.

8.90 The increase in system capability and quality has been accompanied by significant cost increases. Emergency health services costs to the Provincial government increased from $13.6 million in 1994-95 to $53.3 million in 1999-2000, almost a four-fold increase. These cost increases occur at a time when the Province struggles to maintain basic core services in all areas of operation including the health care sector. It is difficult to assess the overall impact of these cost increases without an evaluation of how additional expenditures on emergency health care impact on costs and health care outcomes in other areas of the health care system. For example, the 1994 emergency health care study estimated a 2% reduction in acute care patient days as a direct result of implementing a comprehensive emergency health care system. We do not know if a reduction in acute care patient days resulted from increased expenditures in emergency health or the magnitude of any cost savings. We also note that EHSNS has not actively pursued development of additional revenue sources contemplated in the 1994 study which could have reduced the impact of the above noted cost increases.

8.91 The Department plans to complete a value-for-money audit of the ground ambulance contract with the objective of assessing cost and clinical outcomes. The Audit and Consulting Section of the Department will be conducting the evaluation of cost outcomes. Executive Council approved a contract in December 2000 for an emergency medical consultant to provide an independent clinical evaluation of the contract. Department management informed us that the value-for-money audit has

been designed to review and address specific issues related to the effective, efficient and economic delivery of ground ambulance services in the Province. When completed, the review is expected to include recommendations on both improvements and opportunities.

8.92 EHSNS is a significant portion of the health care budget, both in terms of dollar value and operational impact on the broader health care system. It is important for emergency health services to be governed by appropriate legislative and regulatory provisions with a strong accountability framework. We urge that legislation, regulations and outcome and performance reporting processes be established as soon as possible. In the absence of regular performance reporting, and a defined accountability framework, it is difficult for the House and the general public to determine whether the Province has received value for money from this significant expenditure.

Exhibit 8.1

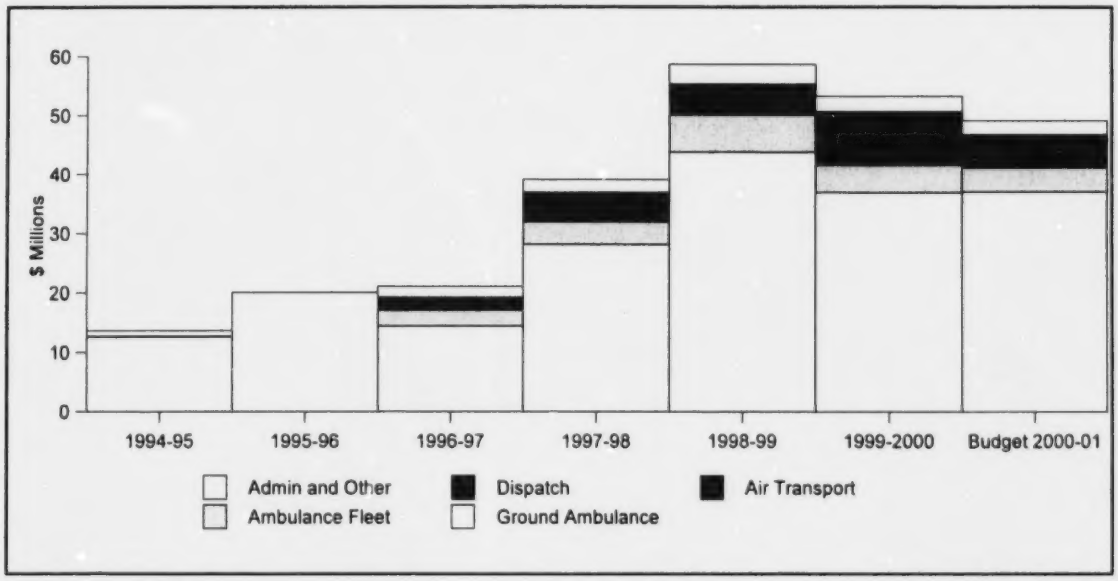
EMERGENCY HEALTH SERVICES
MAJOR PROGRAMS AND CONTRACTORS

Program	Contractor	Estimates 2000-01 (1)
Ground Ambulance	Emergency Medical Care Inc.	$37,136,400
Communications and Dispatch	Emergency Medical Care Inc.	$2,394,700
Technical Operations (ambulance and fleet)	Tri-Star Industries Ltd.	$4,012,100
Air Medical Transport	Nova Scotia Shock Trauma Air Rescue Society (STARS) Canadian Helicopters Ltd.	$3,276,100
Medical Quality Control	Personal service contracts with physicians	$875,900
Other Programs - Provincial Trauma program, Medical First Responder programs, Training programs, Administration	Various contractors and partners including QEII Health Sciences Centre, volunteer fire departments and others.	$1,468,800

(1) Estimates 2000-01 - Emergency Health Services - Grouped by major program.

Exhibit 8.2

EMERGENCY HEALTH SERVICES
FINANCIAL SUMMARY - BY PROGRAM
SEVEN YEARS ENDED MARCH 31, 2001



Note: A breakdown of costs by program was not available for the 1995-96 fiscal year.

COMPARISON OF ACTUAL AND BUDGETED EXPENDITURES
SEVEN YEARS ENDED MARCH 31, 2001

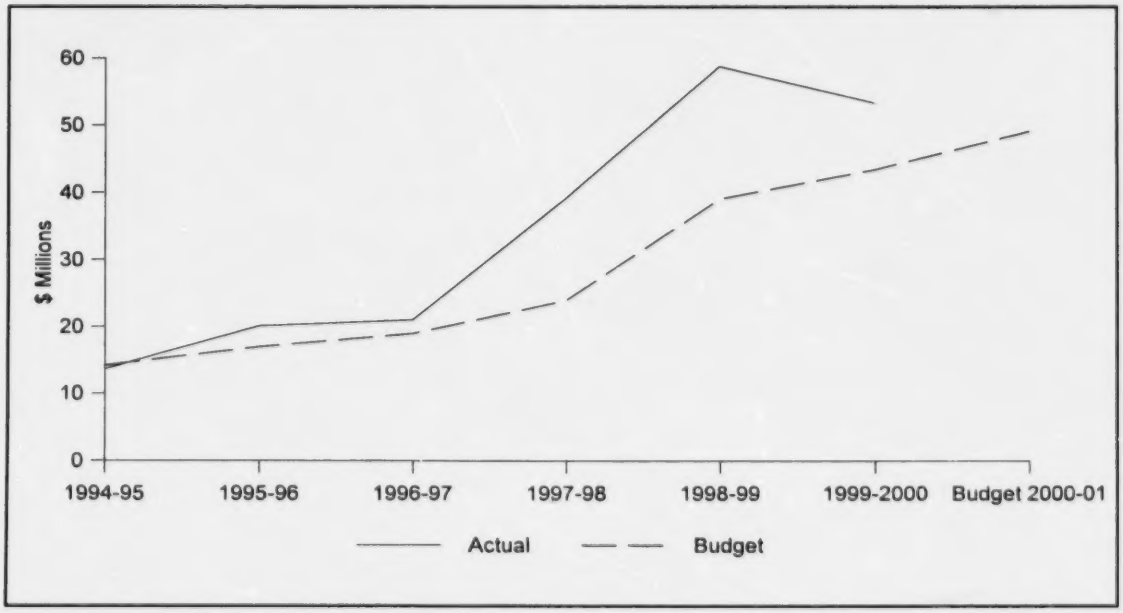


Exhibit 8.3

AUDIT CRITERIA

Branch Accountability and Financial Management

- There should be an appropriate legislative framework for Branch activities.
- The roles and responsibilities of the parties in the Branch accountability and financial management relationship should be well understood and agreed upon.
- Branch objectives being pursued, the accomplishments expected and the constraints to be respected should be explicit, understood and agreed upon.
- Credible and timely operational and financial information should be reported to demonstrate the performance achieved and what has been learned.
- Informed review and feedback on the operational and financial performance achieved should be carried out by the accountable parties, where achievements and difficulties are recognized and necessary corrections made.
- There should be adequate financial management systems and reporting that support the needs of internal management and provide control over general revenues and expenditures of the Branch.

Contract Administration

- Contracts should be awarded in accordance with the Government Procurement Policy.
- Contracts should be properly approved prior to implementation of the contract.
- Responsibility for monitoring each service contract should be clearly defined and communicated.
- Formal, signed contracts should include information on key contractual provisions.
- Contract performance should be evaluated in writing on a periodic basis against the performance requirements identified in the contract.
- Timely remedial action should be performed to ensure appropriate change occurs when performance does not meet established performance requirements.

Fleet and Equipment Control

- Responsibility for monitoring and controlling physical assets should be clearly assigned and communicated.
- There should be processes for ensuring that fleet and equipment comply with the applicable technical standards.
- There should be clearly defined and documented policies and procedures which outline:
  - procurement, distribution and replacement of fleet and equipment;
  - preventative maintenance practices including scheduling of routine maintenance, calibration and testing of equipment;
  - regular inspections; and
  - investigating malfunctions and implementing strategies to avoid a recurrence.
- Appropriate physical safeguards and other security features, including insurance, should be established to protect equipment and minimize losses.
- There should be adequate accounting records for fleet and equipment including adequate records to meet any contractual provisions and Department of Finance requirements for Tangible Capital Asset accounting.

Exhibit 8.3 cont'd

- Periodic inventory counts should be performed and reconciled to accounting records.
- Users of specialized equipment should be trained.

Procurement

- Procurements should adhere to the Government Procurement Policy.
- Procurements should ensure due regard for economy and efficiency through tendering, bulk purchasing and other measures.

Acquisition of Private Ambulance Operators

- The acquisition process should be adequately documented by the Branch.
- There should be a well defined methodology for assessing the acquisition value of private ambulance operations.
- The acquisition value should be assessed based on reliable financial information.
- Acquisition transactions should be subject to an appropriate review process with the Branch and the Department.
- Acquisitions should have received appropriate approvals by the Branch, the Department and Executive Council.

Revenues and User Fees

- Services for which revenues and user fees are to be charged should be clearly defined and authorized.
- There should be a rationale for the setting of fees.
- Roles and responsibilities for the assessment and collection of revenues and user fees should be clearly defined.
- There should be adequate controls and accounting systems for the assessment and collection of revenues and user fees.
- Revenues and user fees should be promptly collected and write-offs should be properly approved.

Exhibit 8.4

EMERGENCY HEALTH SERVICES
OPERATIONAL STATISTICS - GROUND AMBULANCE OPERATIONS
YEAR ENDED MARCH 31, 1999

Service Area (In kms)	
Geographic Area	52,840
Population	925,000
Number of Responses	
Emergency responses	43,798
Non-emergency responses	48,565
Total	92,363
Number of Transports	
Emergency transports	44,919
Non-emergency transports	17,396
Inter-facility transports	19,677
Total	81,992
Ambulance Fleet Size	
Patient-transporting vehicles	128
Supervisor vehicles	9
Total	137

Exhibit 8.5

SUMMARY OF PRINCIPAL TERMS AND CONDITIONS
GROUND AMBULANCE CONTRACT - EMERGENCY MEDICAL CARE INC.
JANUARY 1999

Term, Condition, Deliverable	Comments
Contractor	Emergency Medical Care Inc.
Contract Term	8 years ending March 31, 2007
Contract Termination	Either EHSNS or EMC can terminate contract with 90 day advance notice. If EHSNS terminates contract a termination fee is payable to EMC.
Base Budget	$42.4 million for the year ended March 31, 2001 paid monthly. Increased annually by percentage increase in CPI.
Budget Increases	Budget may be increased for cost of: - service increases for various reasons - excess maintenance costs over km maximum - fuel increases - insurance increases - paramedic labour costs increases - base lease cost increases - WCB increases
Response Times and Paramedic Qualifications	Response times and paramedic qualifications are principal performance indicators.
Penalties	Commencing in the 2000-2001 fiscal year - failure to meet response times. - failure to make certain reports available to EHSNS. - fines for non-compliance with EHSNS policy. - penalties for failing to maintain ambulances or keep mileage under 200,000 kms.
Incentives	- EMC is entitled to retain a percentage of any amount that actual expenditures are under budget. - 50% sharing of user fee collections above 75% of amounts billed. - Preventive maintenance incentives.
Default	EHSNS entitled to emergency takeover of operations in the event of an unresolved major breach of the contract. There are numerous major breach conditions. EHSNS is in default of contract after 30 days upon failure to pay required monthly payment.

Exhibit 8.5 cont'd

Term, Condition, Deliverable	Comments
Clinical Performance	EMC must comply with the clinical requirements established by the Medical Director. EMC responsible for internal quality improvement practices, in-service training, certification monitoring and registration.
Equipment and Facilities	EHSNS owns all ambulances and equipment. These items are licenced to EMC for their use. EMC is responsible for replacing supplies, uniforms and safety equipment.
Other EMC Responsibilities	- Obtain necessary licences and permits. - Maintain insurance.
Other Considerations	- EMC has exclusive market rights in the contract service area. - EMC can market and provide outside for-profit work subject to various conditions.

Exhibit 8.6

SUMMARY OF GROUND AMBULANCE AND AIR MEDICAL TRANSPORT USER FEES EFFECTIVE MAY 1, 2000

Medically Essential Transports - Excluding Inter-facility Transports		
Patient Category	**Fee Charged**	**Basis of Fee**
Resident of Nova Scotia	$85	20% of estimated cost of transport. Includes operating costs only.
Resident of another Canadian province	$500	100% of estimated cost of transport. Includes operating costs only.
Canadians with stipulated third party insurance coverage (RCMP, Canadian armed forces, motor vehicle accidents, WCB)	$500	100% of estimated cost of transport. Includes operating costs only.
Non-Canadian residents	$750	150% of estimated operating cost of transport. Includes a provision for capital and interest costs.
Air Medical Transport - resident of Nova Scotia	$85	No extra differential fee for Air Medical Transport.
Air Medical Transport - residents of NB and PEI	NB - $8,500 PEI - $10,850	100% of estimated cost of air medical transport.

Medically Essential Transports Between Approved Facilities		
Patient Category	**Fee Charged**	**Basis of Fee**
Resident of Nova Scotia	No Fee	
Resident of another Canadian province	No Fee	
Canadians with stipulated third party insurance coverage (RCMP, Canadian armed forces, motor vehicle accidents, WCB)	$500	100% of estimated cost of transport. Includes operating costs only.
Non-Canadian residents	$750	150% of estimated operating cost of transport. Includes a provision for capital and interest costs.

9.

HEALTH - PHYSICIAN ALTERNATIVE FUNDING INITIATIVES

BACKGROUND

9.1 Physicians in Nova Scotia have traditionally been paid on a fee-for-service basis under the Medical Services Insurance (MSI) plan of the Province. Under this system, physicians submit a claim for each medical service provided. The MSI system pays the doctor for the service based on its value as set out in the 1997 contract between the Department of Health and the Medical Society of Nova Scotia (MSNS).

9.2 However the fee-for-service system has been criticized for certain unintended negative side effects to physicians and the health care system. Both the 1989 *Report of the Nova Scotia Royal Commission on Health Care* and a 1997 Department study entitled *Good Medicine: Securing Doctors Services In Nova Scotia* summarize problems inherent in the traditional fee-for-service payment system including:

- physicians' earnings are tied to the number of patients seen creating a potential for over-servicing;
- medical service volumes are open-ended which can lead to escalating costs;
- lack of responsiveness to the different practice settings of physicians;
- lack of incentives to engage in health promotion and disease prevention;
- failure to provide incentives to promote efficiency in the delivery of physician services by including other health care professionals in physicians' practices;
- lack of stability and predictability in physician funding; and
- failure to provide adequate patient access to family doctors and specialists in rural areas and inadequate staffing of emergency rooms.

9.3 Both of these studies recommended alternative physician funding in addition to the traditional fee-for-service payment system.

9.4 Although some variations in the traditional fee-for-service payment system have been in place for many years, there has been a significant increase in the number and variety of Alternative Funding Initiatives (AFI) in the last seven years. In 1997, the contract with MSNS included provisions for special arrangements for physician remuneration and alternate emergency room and rural stabilization funding. These initiatives are intended to address some of the problems associated with the traditional fee-for-service payment system.

9.5 The Department of Health's payments for AFI's were $85.3 million in 1999-2000. AFI expenditures were $11.5 for the 1992-93 fiscal year. A summary of payments to physicians under AFI's is provided in Exhibit 9.1.

9.6 Alternative Funding Initiative contracts fall into three general categories:

- *Medical Specialists* - These AFI's consist of contracts with physician groups or individual medical specialists. These contracts tend to be initiated by the physician or physician group to address specific problems associated with the fee-for-service system unique to the group or individual. There are currently 10 group and 21 individual AFI contracts with medical specialists with expenditures of approximately $52 million during 1999-2000.

- *Emergency Room* - There are two programs associated with emergency room (ER) funding. The first program provides hourly remuneration to physicians to ensure 24-hour medical coverage for Level 3 and 4 regional and tertiary ER's. The second program is referred to as Rural Stabilization and involves providing guaranteed hourly funding to on-call physicians for emergency room coverage. The program also provides lump-sum payments to general practitioners (GP's) who practice in communities more than 45 kilometers from an ER. Annual funding for ER AFI's was approximately $22 million for the 1999-2000 fiscal year.

- *Rural General Practitioners* - This program is intended to attract physicians to rural communities which have difficulty recruiting and retaining family doctors. Physicians are paid a base guarantee which replaces the traditional fee-for-service remuneration. This program cost the Department approximately $11 million in 1999-2000.

9.7 For each AFI, a contract is negotiated between the Department, the physician or physician group and the Medical Society of Nova Scotia. MSNS acts as the official bargaining agent for physicians. For some medical specialist contracts, there may be other parties to the contract including the Dalhousie Medical School and specific acute care facilities.

9.8 The Department's Director of Insured Programs and Manager of Program Funding have direct responsibility for AFI's. The day-to-day administration of contract payments is handled by Maritime Medical Care Inc. (MMC). MMC's duties include paying physician contracts biweekly, maintaining a database of medical service information provided by physicians and audit and verification responsibilities.

9.9 This audit was conducted in accordance with Section 8 of the Auditor General Act.

RESULTS IN BRIEF

9.10 The following are the principal observations from our review.

- The Department of Health and the Medical Society of Nova Scotia have established a Principles document for negotiating AFI contracts. This is an important first step in ensuring consistency of alternative funding initiatives with the objectives and priorities of the Department.

- A principle of the AFI contract system is that "*payments should typically draw no more resources from the Medical Services Insurance (MSI) budget/allocation than was historically drawn by fee for service....*" The evidence we examined indicates that, on average, AFI contracts cost more than historical fee-for-service remuneration.

- When investigating an AFI proposal, the Department does not prepare a summary document which clearly sets out specific outcomes. In addition, the estimated cost of the AFI proposal is not compared to a fee-for-service alternative which takes into account projected future utilization. Such a document, which clearly articulates relative AFI costs and benefits, is important to ensure accountability for program results. We recommended that such a document be prepared.

- The Department's authorization process for AFI contracts appears to be operating appropriately.

- We found weaknesses in the control system for AFI payments administered by Maritime Medical Care Inc. to reduce the risk of inaccurate data input and duplicate payments. We have recommended increased monitoring to reduce the risk of data input errors and overpayments.

- Evaluation of the effectiveness of AFI's depends on data collection through the shadow billing system. This system also supports billings to other provinces for services provided to non-Nova Scotia residents. We found that controls to ensure the completeness of shadow billing submissions are not adequate, particularly for medical specialists. Monitoring of the completeness of shadow billing information is now being performed on an ad hoc and infrequent basis. We note that the Department and MMC are developing a quarterly reporting system which should help to address this deficiency.

- Both the 1997 contract with the Medical Society of Nova Scotia and the individual AFI agreements call for contract evaluations. The Department has established an Evaluation Steering Committee with the Medical Society of Nova Scotia and Terms of Reference to guide the evaluation process. We have recommended more frequent evaluations and changes to the scope of evaluations.

- Individual AFI contracts permit the Department to decrease payments after 90 days if actual service levels are less than the contract payments. However, this provision is very difficult to implement because of the manner in which the contracts are structured. We have recommended that these provisions be strengthened and enforced.

AUDIT SCOPE

9.11 The objectives of this assignment were to:

- assess systems and practices which provide for the administration of Alternative Funding Initiatives with due regard for economy and efficiency;

- assess the planning, authorization, management, reporting and accountability framework in place at the Department of Health over Alternative Funding Initiatives;

- document and assess the systems and controls over payments to physicians under the various alternative funding contracts including controls to ensure that physician obligations and accountabilities are met; and

- test a sample of physician payments under alternative funding initiatives to ensure that key controls identified are working as documented, payments are accurate,

authorized, complete and agree to contract details, and that physician obligations are being complied with.

9.12 Audit criteria developed for this assignment were discussed with management of the Insured Programs Branch of the Department at the outset of the audit and are presented in Exhibit 9.2. Our audit approach included interviews with staff of the Department of Health's Insured Programs Branch and Maritime Medical Care Inc., detailed examination of contracts, files, reports and other documentation and detailed testing of a sample of 40 contract payments.

9.13 Pursuant to the 1997 contract with MSNS, the Department also provides funding to physicians for health and malpractice insurance and to offset the cost of sales taxes. Some physicians also receive stipends and salary supplements from acute care facilities separate from the AFI process. These additional payments are not included in the scope of this audit.

PRINCIPAL FINDINGS

Developing New Alternative Funding Contracts

9.14 *Principles for negotiating AFI contracts* - General requirements for establishing AFI contracts are provided in the March 1997 contract with the Medical Society of Nova Scotia. In addition, the Department of Health and MSNS have established a Principles document for negotiating AFI contracts. This is an important first step in ensuring consistency of AFI initiatives with the priorities of the Department. This document sets out a framework within which all Alternative Funding contracts are developed. The Principles document is applicable mainly to AFI contracts with medical specialists but has general applicability for all AFI contracts. The objectives and conditions for AFI contracts, as set out in the Principles document, are provided in Exhibit 9.3.

9.15 The Principles document requires physicians to submit AFI proposals to MSNS. Proposals are then presented to the Department of Health for consideration. The Department analyses historical fee-for-service billings over the last three years to determine the maximum funding levels for the AFI. The Department then researches the number of full-time physicians (FTE's) that should provide service under the AFI contract. The Department does not have a formal physician resource plan upon which to base this analysis. Department management informed us that a physician resource plan is now being developed. The results of these analyses serve as a basis for a negotiated agreement with the physician group and the Medical Society.

9.16 One condition in the Principles document is *"payments should typically draw no more resources from the Medical Services Insurance (MSI) budget/allocation than was historically drawn by fee for service...."* In practice, the Department considers the past three years of fee-for-service billings and selects the best year for each physician in the AFI group in calculating the base funding level under an AFI agreement. The implication from this practice is that, on average, AFI's will cost more than historical fee-for-service.

9.17 Department files contain detailed cost and resource analysis to support an AFI proposal. We note that a summary document is not prepared which clearly defines the specific problems or conditions that a proposed AFI is intended to address and the anticipated clinical outcomes. The estimated cost of an AFI proposal is compared to historical fee-for-service expenditures adjusted for rate increases. However the comparison does not take into account fee-for-service utilization projections based on historical trends. Clear articulation of relative costs and benefits is important to ensure accountability for program results. We recommended that such a document be prepared.

9.18 We also note that acute care facilities are permitted to provide financial incentives to attract medical specialists without informing the Alternative Payments Section of the Department. This practice carries the risk that all sources of funding to a specialist group are not being fully considered when new AFI's are negotiated.

Authorization of Alternative Funding Contracts

9.19 We found the authorization process for AFI contracts to be appropriate. AFI contracts are approved by Department senior management prior to being signed by the Minister of Health. Contract wording is reviewed by legal staff of the Department prior to signing.

Payment Systems for Alternative Funding Contracts

9.20 *Background* - The processing of AFI payments is the responsibility of the Director of MSI Programs at Maritime Medical Care Inc. (MMC). Data entry of payment information to the MSI system is performed by the Alternate Funding Coordinator.

9.21 AFI payments are made biweekly based on the contract details recorded in the MSI system. Contract details for new AFI agreements or changes to existing contracts are input to the system via an authorization letter from the Director of Insured Programs of the Department. All additions and changes require the Coordinator to manually recalculate and enter the biweekly payment to the MSI system.

9.22 *Controls over data input* - We tested 40 biweekly AFI payments during the 1999-2000 fiscal year and noted one payment entered incorrectly to the MSI system. MMC management estimated that this error resulted in an overpayment of approximately $154,000 to a group of medical specialists and arrangements are now being made to recover this amount. The error appears to be the result of a weakness in the data entry procedures where contract interpretation, payment calculations and data entry are not verified by supervisory staff at MMC. We have recommended that MMC strengthen controls over the input of biweekly payments to the MSI system. Further the biweekly payment amounts for the remaining contracts on the system should be reviewed for accuracy.

9.23 *Controls over duplicate claims* - Under the fee-for-service system, physicians submit Service Encounter Claims to MMC which detail the medical services provided by the physician. The MSI system will only accept claims that have a valid billing number and a valid business arrangement number. Physicians have only one billing number but may have multiple business arrangements depending on the nature and locations of the doctor's practice. The MSI system automatically checks for duplicate Service Encounter Claims under the fee-for-service system.

9.24 When a physician enters an AFI arrangement, the fee-for-service business arrangement number is suspended to prevent duplicate billings under the two systems. However, a risk of duplicate billing remains because a fee-for-service claim could still be submitted under one of the physician's remaining business arrangement numbers.

9.25 To illustrate this concern, the Monitoring and Statistics Section of MMC conducted an audit to detect fee-for-service payments under the Emergency Room Rural Stabilization Program. Under this Program, physicians are not permitted to submit fee-for-service claims during certain times covered by the Program. This audit revealed $83,513 in fee-for-service billings which have been recovered from the physicians.

9.26 We are concerned about the risk of overpayment, particularly for medical specialists under AFI contracts who may also be permitted, in certain circumstances, to submit fee-for-service claims.

We have recommended that the Department re-examine the risk of overpayment and implement controls to detect duplicate payments if appropriate.

9.27 *Responsibilities for contract monitoring* - A 1992 contract between MMC and the Province outlines, in very general terms, the responsibilities of MMC for the payment, audit, and assessment of payments to physicians. Since that time, there has been a significant increase in the types and dollar value of AFI contracts and payments now total $85.3 million annually.

9.28 Section 15 of the 1992 MMC contract allows the Department to issue policy and procedural directions to MMC to clarify administrative, audit and investigative responsibilities. No policy and procedural directions have been issued by the Department for AFI contract administration. We found that responsibilities for contract monitoring, specifically for the follow-up and investigation of shadow billing information described more fully below, were not well defined between the Department and MMC staff. We have recommended that the Department clarify roles and responsibilities of Department and MMC staff for AFI contract monitoring.

Data Collection - Shadow Billing

9.29 *Overview* - Under the fee-for-service system, physicians submit Service Encounter Claims which serve several purposes. Claims trigger payments to the physician, provide evidence that a medical service has been received, serve as a basis for billing medical services to other provinces under reciprocal billing agreements and provide valuable data for health care planning.

9.30 Under AFI contracts, physicians are paid automatically on a biweekly basis regardless of the medical services actually performed. Physicians under AFI contracts are therefore required to submit service encounter information. Service encounter information submitted under an AFI contract does not trigger a payment to the physician and for this reason is referred to as a shadow billing. The complete and accurate submission of shadow billing information is important for the same reasons as Service Encounter Claims cited above.

9.31 To ensure complete and accurate submission of shadow billing information, the value of shadow billing data is periodically compared to total payments under the AFI contract. AFI contract funding was originally designed so as not to exceed the funding historically incurred under the fee-for-service billing system. To ensure that fee-for-services costs are not exceeded, AFI contracts with medical specialty groups contain a clause where payments can be reduced if shadow billing information indicates that medical services provided are less than contract payment amounts. Therefore, although some variation between AFI payments and shadow billing information can be expected, the two figures should be reasonably close.

9.32 *Medical Specialist Group contracts* - We found controls to ensure completeness of shadow billing submissions are not adequate. Monitoring of the completeness of shadow billing information is being performed on an ad hoc and infrequent basis.

9.33 We examined a report prepared by MMC which compared the value of shadow billings for medical specialty group contracts to AFI contract amounts paid during the 1999-2000 fiscal year. The report indicates that AFI contract amounts paid exceeded the value of shadow billings by $9.4 million or 24%. For individual AFI contracts, the excess of AFI payments over shadow billing values ranged from 9% to 89%.

9.34 Department management informed us that the excess of contract payments over the value of shadow billings may be due to several factors including the following.

- Physicians may be spending more time with patients in an effort to improve the quality of patient care, resulting in fewer patient visits and lower shadow billings.
- Medical specialty AFI's allow for additional physicians to reduce patient load in areas considered overworked under the previous fee-for-service system.
- Shadow billing information may not be reported in a complete manner by physicians.

9.35 We are particularly concerned that shadow billing information reported by physicians may not be complete. This may translate into lost reciprocal billing recoveries for the Department. Shadow billing is the only source of data for reciprocal billing to other provinces for AFI contracts. Department management informed us that 5% to 8% of patients admitted to acute care facilities are residents of other provinces. Therefore 5% to 8% of the above $9.4 million difference may represent lost reciprocal billing recoveries.

9.36 We recommended that the Department review shadow billings for medical specialty groups on a regular basis and take action in cases where shadow billings by physicians appear incomplete. This review process should be supported by appropriate documentation. We acknowledge that the Department and MMC are currently developing a quarterly reporting system which should facilitate this process.

9.37 *Emergency Room programs* - Department management review shadow billing information for Level 3 Emergency Room sites annually. Cases where the value of shadow billings is significantly lower than the amounts paid are investigated.

9.38 We examined a report which compared the value of shadow billings for Level 3 ER facilities to AFI contract amounts paid during the 1999-2000 fiscal year. Contract payments exceeded the value of shadow billings for this period by $4.4 million or 34%. Department management explained that this difference is likely attributable to a policy decision which requires all Level 3 emergency rooms to have at least one physician on site at all times. For smaller facilities, very few patients may be seen in an 8-hour shift and therefore contract payments will exceed the value of shadow billings.

9.39 When additional Level 3 emergency room funding was established, pursuant to the 1997 contract with MSNS, the Department estimated 24-hour ER service would cost approximately 20% more than the historical fee-for-service system. The above comparison indicates that the actual cost of 24-hour ER service in Level 3 facilities may be as much as 34% more than that paid under the fee-for-service system.

9.40 Department management acknowledges that part of the 34% difference may be due to incomplete shadow billing submissions. As discussed above, a failure by physicians or facilities to submit shadow billing information can result in a loss of reciprocal billing recoveries and incomplete Provincial health data. We recommended the Department investigate more rigorously shadow billing information for Level 3 ER contracts where submissions appear incomplete. This review process should be supported by appropriate documentation.

9.41 *Rural General Practitioner contracts* - Shadow billings for these physicians are reviewed annually by Department management. Department staff visit these physicians annually and shadow billing remittances are discussed where necessary although visits are not always documented. Overall the verification of shadow billing information for physicians with rural incentive contracts appears reasonable.

Evaluation of Alternative Funding Contracts

9.42 The 1997 MSNS contract requires rigorous evaluation of new AFI initiatives. The requirement for evaluation extends only to AFI contracts with medical specialists and rural practitioners. There is no specific requirement in the MSNS contract for evaluations of Emergency Room AFI's.

9.43 The Department has established an Evaluation Steering Committee comprised of staff from the Department, MMC and MSNS. The Steering Committee developed Evaluation Terms of Reference which set out evaluation objectives in three general areas:

- contract compliance and the financial implications of AFI contracts;
- patient access to physicians and changes in service delivery methods and patterns; and
- stakeholder satisfaction with the AFI including physicians, patients, health care facilities and the Department.

9.44 The individual AFI contracts with medical specialists also call for evaluation of clinical outcomes including average length of stay, readmission rates, wait times and other criteria. An assessment of clinical outcomes is a requirement notably absent from the Evaluation Terms of Reference.

9.45 We recognize that the Department's motivation for entering into AFI contracts is often to encourage new and innovative medical approaches and to encourage an increase in health promotion and disease prevention activities by physicians. Department staff inform us that new activities, which AFI contracts are designed to encourage, are often not captured by the MSI information system. The lack of information on the occurrence of new activities leads to difficulty in evaluating AFI contracts.

9.46 The timing and frequency of evaluations is not defined in either the Terms of Reference or the contracts. The Department has not developed a schedule for the completion of contract evaluations. At the time of our audit, there were 37 medical specialist and 46 rural practitioner contracts that were one to seven years old with annual expenditures of approximately $45 million. Of this population, two medical specialist contracts, with annual expenditures of approximately $20 million, had been evaluated.

9.47 Both evaluations were conducted by staff of the Department. One of the evaluation team members is from the Evaluation Section of the Department. The scope of the two evaluations was confined to selected Evaluation Terms of Reference objectives and consisted of various analyses of shadow billing data. There was no evaluation of changes in service delivery methods or stakeholder satisfaction. There was also no evaluation of clinical outcomes as called for in the AFI contracts.

9.48 A noteworthy finding from these evaluations, based on the shadow billing information, was that the value of medical services delivered under the AFI contracts was less than the dollar value of the contract payments. This is consistent with our audit findings discussed above.

9.49 We understand that Department management is now studying the evaluation findings to identify issues for discussion during the next round of contract negotiations with the Medical Society of Nova Scotia.

9.50 The individual AFI contracts permit the Department to decrease payments after 90 days if actual service levels delivered are less than the contract payments. However, this provision is very difficult to implement because of the manner in which the contracts are structured and related reporting requirements. We have recommended that these provisions be strengthened and enforced.

9.51 Although AFI contracts require clinical outcome evaluations, the data requirements for this type of evaluation have not been defined. Unless data requirements are defined and appropriate data collection processes established, the evaluation of medical outcomes may not be possible.

CONCLUDING REMARKS

9.52 Alternative funding initiatives have been advocated for many years as a means of improving the economy, efficiency, effectiveness and responsiveness of medical services provided by physicians. The Department has responded by entering into a variety of AFI programs for medical specialists, emergency room physicians and rural general practitioners. Expenditures on AFI's have increased almost eight-fold in the last seven years. The Department has negotiated written principles with the Medical Society of Nova Scotia as a framework for developing AFI's.

9.53 While AFI's may have potential benefit to the health care system, our audit indicates that conditions giving rise to specific proposed AFI's and the outcomes expected from AFI's generally are not well articulated. This makes evaluation difficult for both specific AFI's and AFI programs in general.

9.54 Our objectives for this audit of alternative funding initiatives for physicians included assessment of the Department's systems and practices to provide for due regard for economy and efficiency and compliance with contracts. We found deficiencies in the systems providing for due regard for economy and efficiency, including:

- need for improvement in the analysis preceding the decision to enter into an alternative funding initiative;
- incomplete shadow billing data; and
- infrequent evaluation of outcomes.

9.55 We also found weaknesses in certain controls which provide for compliance with contracts.

9.56 The Department has created an Evaluation Steering Committee and established Evaluation Terms of Reference. However, only two AFI contracts have been formally evaluated and there does not appear to be a timetable for completing evaluations for the remaining contracts. There are no plans to evaluate AFI programs more broadly, including programs such as emergency room coverage and rural general practitioners. Clinical medical outcomes and stakeholder satisfaction are two important areas which have not been formally evaluated.

9.57 Evaluation of the outcomes of alternative funding arrangements is extremely important to the future of health care in Nova Scotia. Without such information, decision makers lack the evidence to support sound decision-making including whether such arrangements have been successful and whether they should be extended to other physician groups.

Exhibit 9.1

FINANCIAL SUMMARY
SUMMARY OF ALTERNATIVE FUNDING INITIATIVES

Initiative	Actual 1999-2000	Forecast 2000-2001
Medical Specialty Groups	$52,597,125	$60,464,937
Emergency Rooms	22,033,328	22,666,108
Rural Incentive & Other	10,670,013	10,592,892
Total	$85,300,466	$93,723,937

Exhibit 9.2

AUDIT CRITERIA

- Department objectives, expected accomplishments and constraints should be explicit, understood and agreed upon.

- The Department should have a well defined planning, authorization, reporting and accountability structure in place for AFI's that demonstrates due regard for economy and efficiency including:

  - clear roles and responsibilities;
  - balanced expectations and capacities;
  - cost/benefit comparisons of alternatives;
  - adequate reporting mechanisms;
  - reasonable review and adjustment; and
  - credible reporting.

- Roles and responsibilities of all parties to the accountability relationship (Department, MMC and physicians) should be well understood and agreed upon.

- Credible and timely operational and financial information which demonstrates performance achieved should be reported and reviewed and necessary corrections made to the program.

- Financial transactions and shadow billing information should be documented and retained.

- Contractual arrangements should be documented and approved in accordance with a prescribed protocol and include key terms and conditions including:

  - services to be provided;
  - qualifications of service providers;
  - accountabilities of the service providers;
  - scheduling commitment and length of contract;
  - description of physical facilities and/or equipment to provide the service;
  - reporting relationships;
  - quality improvement expectations;
  - any legislated or regulatory standards that must be adhered to;
  - financial arrangements;
  - liability insurance; and
  - license and/or registration status of the service.

- There should be adequate controls (manual or automated) to ensure that:

  - new contracts with physicians or physician groups are recorded on the payment system in a complete, accurate and authorized manner;
  - payments are accurate, timely and in accordance with contract requirements;
  - contract changes are authorized and documented;
  - services paid for, pursuant to alternate funding contracts, have been received;
  - assets are safeguarded against fraud and loss; and
  - errors are prevented from entering the system and corrected once identified.

- Significant controls within the payment and shadow billing system should be functioning as documented.

Exhibit 9.3

DEPARTMENT OF HEALTH AND MEDICAL SOCIETY OF NOVA SCOTIA
PRINCIPLES FOR NEGOTIATING
ALTERNATIVE FUNDING CONTRACTS
DECEMBER 1997

Objectives:

1. To provide a clinical service to meet the needs of patients.

2. To provide quality medical care.

3. To define scope of physician services to be provided which may include clinical service, teaching, research and administration.

4. To provide funding for services apportioned to the appropriate payers. (Clinical service will be funded by DOH. Academic activities will be funded by Dalhousie University. Research activities will be funded by Dalhousie University and other research grants. Administrative activities will be funded by the health care facility.)

5. To provide fair, reasonable, stable and sustainable funding for physician services.

6. To define the physician resources required to provide the scope of service.

7. To allow flexibility in the delivery of physician services.

8. To establish performance guarantees and define the minimum level of service below which penalties would apply.

Conditions:

1. Alternative funding arrangements may only be implemented with the agreement of the MSNS in cooperation with those physicians affected.

2. Any new alternative funding contracts will be treated as a pilot project for a minimum of one year. Contracts may be signed for a maximum period ending March 31, 2001 (the end date of the 1997 Medical Agreement).

3. In alternative funding arrangements, all members of the group must agree to join the alternative funding proposal. (Active billing numbers will be retired for the duration of the alternative funding contract)

4. The alternative funding contract will define the parties to each alternative funding agreement and the roles and responsibilities of each. Organizations requesting activities of physicians will typically fund these activities as follows:

Clinical Service -	Department of Health
Academic Activities -	Dalhousie University
Research Activities -	Dalhousie University and Other Research Grants
Administrative Activities -	Health Care Facility

5. The alternative funding contract payment levels to physicians will be based on agreed upon manpower levels. Payments should typically draw no more resources from the Medical Services Insurance (MSI) budget/allocation than was historically drawn by fee for service (FFS) billings over the previous one to five fiscal years of funding.

6. Any funding increases provided by the DOH during the term of the contract will be based on changes to the Medical Service Unit (MSU) as detailed in the 1997 Medical Agreement.

7. On an annual basis, the group practice plan or equivalent will provide to the applicable payers a written report detailing the actual distribution of funds to individual physicians within the group.

8. It is important for the DOH to obtain accurate and timely patient services information from all service providers. The claims information submitted to MSI is utilized in a number of ways including:

   - As a research tool, the information is necessary for the determination of population based or diseased-based health care costs. The information assists in developing long term health delivery plans.

   - Patients often contact Maritime Medical Care (MMC) with requests for information on certain services from their medical history. Similarly, third-party requests are received from lawyers, insurance companies, etc. to substantiate service encounters and verify types of services and specific diagnoses.

   Physicians in alternative funding arrangements must report information on services provided directly to MSI through shadow billing or an acceptable alternative method throughout the period of the alternative funding contract. Shadow billing is defined as reporting by physicians in an alternative funding arrangement of insured service encounter information to MSI in the format prescribed by DOH.

9. Evaluation of the alternative funding contract will be performed. Physicians agree to participate in time studies as part of the evaluation protocol.

10.

HOUSING AND MUNICIPAL AFFAIRS - LAND INFORMATION SERVICES

BACKGROUND

10.1 The Land Information Services Division (LIS) of the Department of Housing and Municipal Affairs (DHMA) was formed in 1991. Prior to that time, Land Registration and Information Services (LRIS) functioned as an agency of the Council of Maritime Premiers. In 1992 a decision was made by government to consolidate the major property records functions of the Registry of Deeds and LRIS. In 1993, Property Mapping and Records was transferred to Land Information Services from LRIS. In 1994, Registry of Deeds was transferred to Land Information Services from the Department of Justice, and the survey and mapping responsibilities of LRIS were also transferred to LIS in 1994. These changes were made to provide a focus for a corporate approach to land-related information in Nova Scotia.

10.2 Since the early 1970's, the Province has been working in cooperation with the other Maritime Provinces toward establishing a Province-wide geographic information infrastructure. This began with the placement of approximately 23,000 survey monuments in the Province for a coordinate referencing system which was completed in the early 1980's. Topographic, urban and property mapping were coincident with and followed the coordinate referencing system. Division staff estimate costs of $70 million have been incurred to develop these corporate primary geographic databases.

10.3 Land Information Services is responsible, as the Provincial focus for corporate land-related information, for the development, maintenance and distribution of government-held geographic information; the development and maintenance of real and personal property registration systems; coordination of access to all government-held geographic information; and for advice and assistance in the development of a strong private sector industry in geomatics.

10.4 The major objectives of the Division are to ensure land information is easily accessed and shared among major public and private information users and to encourage the development of a strong private sector industry in the land information field.

10.5 Land is one of Nova Scotia's most valuable assets, representing the foundation of much of the Province's economic activity. The Department is responsible for developing and maintaining the infrastructure of policies, standards and foundation databases that enable Provincial, municipal, Federal, private sector and public users easy access to accurate and current geographic information required for a variety of uses. Current high profile uses include the E-911 system, natural resource management (including distribution of natural gas), community economic development, and the Province's eco-tourism industry. The Department also operates the real and personal property registration systems in the Province which enable the protection and conveyance of interests in property which are essential to the economic competitiveness of Nova Scotia. For a summary of the challenges in the current environment see Exhibit 10.1.

10.6 The Division maintains several major databases on behalf of the Province, including the Nova Scotia Property Records Database. Access to this database is available over the internet for a fee. For each property, this database provides such basic information as ownership, location (descriptive as well as visual), size, monument markings and book and page references for registered documents associated with the property.

10.7 Other major or primary databases are the Nova Scotia Topographic Database, the Nova Scotia Coordinate Reference System and the Nova Scotia Civic Address File. The users of these primary databases include the Provincial departments of Natural Resources, Environment, Health (Emergency Health Services) and the Assessment Division of DHMA; municipal fire and other emergency services; and lawyers and lending institutions. These users either build upon or make enquiries of the foundation or primary database.

10.8 The Land Information Services Division consists of three major sections (See Exhibit 10.2). The Nova Scotia Geomatics Centre, located in Amherst, provides corporate geographic data acquisition and maintenance, specialized technical services in geomatics, and coordinates data and information distribution services. The Policy and Standards Section develops and monitors policies related to corporate geographic information, manages the development of corporate land-related information, and promotes inter-agency consultation and cooperative ventures. The Property Registration Section is responsible for the Division's regional operations providing property registration, mapping and regional distribution services through a network of five regional Land Information Centres and 18 county Registry Offices.

10.9 The Division is responsible for administering the Personal Property Security Act and the Registry Act. The Division had gross expenditures of $11.1 million in 1998-99. $1.5 million from sales of maps and other geographic data is netted against gross operating expenditures for a net cost to government of $9.6 million. Revenues of the Division totalled $9.6 million during the year - $5.2 million from Registry of Deeds activities and $4.4 million from Personal Property Registry activities. The Division has a staff complement of close to 190 employees.

10.10 This was our first broad scope audit of Land Information Services of the Department of Housing and Municipal Affairs.

RESULTS IN BRIEF

10.11 The following are the principal observations from our audit.

- The strategic planning process within the LIS Division has been performed adequately, although we have recommended improvements in resource planning and monitoring. Plans are currently underway for a major restructuring of the way the Registry of Deeds conducts business and meetings have been ongoing with stakeholders throughout government and private industry

- The performance measurement and reporting system within the LIS Division could be improved if regular reports of Divisional performance were prepared for stakeholders.

- The Division should prepare rationales for the fees charged for registering real property and personal property transactions.

- Overall, the procurement function for the Land Information Services Division has been well managed. The Division adheres to the Provincial Procurement Policy and the Atlantic Procurement Policy.

- The Personal Property Registry operating agreement provides for the Province's right to audit accounts maintained by the private partner. To date, there have been no audits and we recommended that such audits be conducted.

- Overall, we found controls over the computer environment and application for the Deeds On-line Registration and Information System to be satisfactory.

AUDIT SCOPE

10.12 The objectives of this assignment were:

- to determine whether the Division has an adequate strategic planning process and an adequate performance measurement system;
- to review and assess the process for setting the fees for revenues and recoveries and the internal controls over revenue;
- to determine whether systems and practices in the procurement area provide for adequate controls and due regard for economy and efficiency, and compliance with government policies; and
- to evaluate the adequacy of environmental and application controls for the computer installation at the Division including organizational controls; development and program change controls; operations controls; documentation controls; logical access controls; application controls; and disaster recovery and contingency planning.

10.13 The audit criteria were taken from recognized sources including the Canadian Institute of Chartered Accountants Criteria of Control Board's *Guidance on Control* and *Computer Control Guidelines*, along with the Provincial Procurement Policies.

10.14 The general criteria utilized in this assignment are summarized as follows.

- There should be adequate strategic planning and performance measurement reporting processes.
- There should be policies and practices to provide for establishment of fees, adequate monitoring of revenue and internal controls over revenue.
- The Division should comply with the Provincial Procurement Policy and have a process to monitor the post-implementation costs and benefits of major procurements.
- There should be adequate computer environmental and application controls.

10.15 Our approach consisted of interviews, examination of documentation and discussions with management and staff of the Department.

PRINCIPAL FINDINGS

Strategic Planning

10.16 The vision and objectives as laid out in the strategic plans provide the strategic directions for the Division. Past and present strategic plans have included numerous goals and objectives for both the current year and for future years. These goals are generally related to projects which the Division is planning to undertake. They usually involve completion of the project or are milestones to be achieved within the project.

10.17 The plans prepared by the Land Information Services Division are completed to the detailed work plan level to assist the Division in attaining its goals. These plans include a ten-year vision shown in Exhibit 10.3.

10.18 Strategic plans for the Division do not include an estimate of the type or quantity of resources that will be required to complete them. We recommended that plans should include an assessment of the resources that will be needed.

10.19 Goals are tracked throughout the year by senior management to determine status. This monitoring can result in revisions to the timing of achievement of specific goals or objectives. There are no regular reports prepared as a result of this monitoring. We recommended that a formal reporting process be put in place to document the monitoring of strategic goals.

10.20 Plans are currently underway for a major restructuring of the way the Registry of Deeds conducts business. This plan, called Registry 2000, has involved significant Divisional planning and collaboration with stakeholders throughout government and private industry. The vision of the participants is modernized land tenure legislation, delivered through an integrated, electronic system. Discussion commenced in the fall of 1997. Phase One was initiated in April 1999, with projected completion for this phase by fall 2000. This includes public meetings, preparation of a discussion paper and the completion of draft legislation which will be required to modernize the land registration system.

10.21 The strategic planning process within the LIS Division has been performed adequately, although we have recommended improvements in resource planning and monitoring. The Division's plans provide useful direction to guide operations. The plans include many goals and objectives the Division is expected to achieve, and senior management monitor progress and realign plans and objectives where necessary. The Division also works extensively with other government departments and with private partners to determine the needs of the Province and to incorporate those needs into strategic plans. Plans are currently underway for a major restructuring of the way the Registry of Deeds conducts business and meetings have been ongoing with stakeholders throughout government and private industry.

Performance Measurement and Reporting

10.22 Performance outcomes and targets set out in *Government by Design* were incorporated into Divisional plans. Outcomes were reported as part of the *Nova Scotia Counts* initiative. The Land Information Services Division and individual manager plans include a number of performance targets. Generally, these are milestones within specific projects, either project completion dates or completion of stages.

10.23 Monitoring of performance against targets occurs through senior management meetings where each project is reviewed and its current status is determined. This often involves revisions to the expected completion date/time frame for a project. The Division does not report directly against any of these targets. We recommended a more formal reporting process to document results against targets.

10.24 Monthly reports are available showing volume of documents dealt with at each registry. See Exhibit 10.4 for 1998-99 summary. The information has been used in the past for business planning purposes such as staff and space requirements and office consolidations.

10.25 The only reporting requirements outlined in legislation are the standard department accountabilities as outlined in the Public Service Act and the Management Manuals. The legislation for the Division, The Registry Act, contains only a reference to the Attorney General requiring a financial report showing total volume of fees.

10.26 There is no regular reporting to stakeholders. The Division has made presentations to stakeholder groups on request. The Department completes an annual report, however the report consists mainly of financial information and does not include reporting on performance of the division.

10.27 The performance measurement and reporting system within the LIS Division could be improved if regular reports of Divisional performance were prepared for stakeholders.

Revenues

10.28 *Background* - The Land Information Services Division of the Department of Housing and Municipal Affairs generated revenues of $9.6 million during 1998-99. $5.2 million of these fees were collected by the Registry of Deeds offices for registering and photocopying documents under rates established by Regulations under the Costs and Fees Act. $4.4 million was collected for registrations and searches under the Personal Property Security Act. As well, $1.5 million collected for the sales of maps and geographic data is netted against the Division's gross expenditures. See Exhibit 10.5 for Division revenues/recoveries for the past three fiscal years.

10.29 *Process for setting fees and relationship between fees and cost of services* - See Exhibit 10.6 for sample schedule of fees charged for Registry and Land Information Centre services and products. Registry of Deeds fees were last updated by Order in Council in May 1990. There may have been some rationale for establishing the rates, but at this date there does not appear to be any relationship between a specific fee and the cost of the service provided. The Division has recently analysed the relationship between the cost of providing the service and the fees recovered for providing that service. We have been advised that the relationship between Registry fees and costs will be examined in more detail as part of the Registry 2000 initiative.

10.30 Maps and geographic data are sold primarily through the Division's five Land Information Centres. The pricing policy for the sale of this geographic information was determined by an interdepartmental group established in 1994. Their recommendations were approved by a deputy ministerial committee and form the basis of the LIS pricing policy.

10.31 The Task Group considered three pricing bases - full cost recovery, market value and a nominal fee. According to their report, the selection among the various pricing bases is

> *"hotly debated within Canada and internationally. Some countries do not levy fees hoping to encourage use of the information; others charge what the market will bear in an attempt to recover some of the cost of producing it. The USA federal government policy is to provide information free or, at minimum, for the cost of distribution. This has contributed to a vibrant and growing geomatics industry. Canadian Federal Government departments...have taken more of a market based approach to the charge for Geographic Information, and have established prices substantially higher than the cost to distribute it. These...agencies have been widely criticized for this approach which information users contend has stifled the growth of the geomatics industry in this country. The information providers have argued that the revenue from sales have contributed significantly to the cost of creating and maintaining the data."*

10.32 There are many persuasive arguments on each side. This group felt that both cost recovery and market value approaches might inhibit use of geographic information and therefore recommended that the pricing be set so as to encourage the use and access.

10.33 We recommended that the Division prepare a rationale for the fees charged for registering real property and personal property transactions.

10.34 *Budgeting and reporting* - Division staff prepare estimates of annual revenue based on analysis of the previous year's trends and information about upcoming partnerships/contracts which will generate revenue. Actual results compared to estimates are monitored on a monthly basis throughout the year.

10.35 *Internal controls* - The Department of Housing and Municipal Affairs has an Internal Audit Division. This Division has responsibility to conduct audits/reviews of any area of the department.

10.36 Internal Audit has conducted one audit within the Land Information Services Division. This audit, in 1998, focussed on the financial aspects of the operations of one of the larger Registry offices. Reported weaknesses in internal controls resulted in procedural changes strengthening controls. Prior to 1996-97 the Department did not have an internal auditing capability, but requested and received support from the Department of Justice which conducted two audits.

10.37 Based on our discussions with staff and our review of the Division's policies, nothing came to our attention to indicate that controls over cash are inadequate. We have discussed, with staff, how internal controls over the accounts receivable function could be improved with proper segregation of duties.

10.38 There are no current plans to conduct audits in other Registries, but Internal Audit is currently preparing a longer-term audit plan which would include visits to other Registries. The Division has requested that all offices be audited on a five-year rotation.

Procurement

10.39 The Land Information Services Division follows the Provincial Procurement Policy (PPP), and adheres to the Atlantic Procurement Agreement (APA) for all of its purchases.

10.40 Internal LIS directives are in place to assign signing authority limits and to ensure adherence to the PPP. Internal limits have been restricted by the government's fiscal restraint policies which dictate that all purchases of over $1,000 must be approved by the Minister.

10.41 Most of the purchases within the LIS Division are for general operating supplies, and are purchased by the local LIS office. LIS policy dictates that three quotes are required for all purchases over $500 and purchase orders/requisitions must be submitted to the Halifax office where the Departmental procurement staff will review and enter them into the financial system. Staff review these to ensure compliance with Provincial procurement policies, and also to ensure that any government standing offers are utilized. The only exception is purchases made by the Geomatics Centre in Amherst which, due to the technical nature of many of the purchases, deals directly with the Provincial Procurement Agency. The Government Procurement Policy and LIS policies provide for economy and efficiency in all LIS purchases.

10.42 For 1998-99, procurements totalled $2.3 million. Our testing did not uncover any deviations from proper procurement processes at LIS offices or at the Geomatics Centre. All purchases tested followed the procedures as outlined. There were no exceptions found that would have required reporting to the Purchasing Agency.

10.43 Overall, the procurement function for the Land Information Services Division has been well managed. The Division adheres to the Provincial Procurement Policy and the Atlantic Procurement Policy, and uses the Provincial Procurement Agency when necessary.

Personal Property Registration System

10.44 In the mid-1990's, LIS used the Co-operative Business Solutions (CBS) process to find a partner to modernize the Personal Property Registry (PPR). The goal of the project was to allow individuals and institutions to record their financial interest, as well as search for other interests, in personal property (cars, boats, appliances, etc.) at anytime from their own computer. We included this procurement transaction in our 1996 audit of government procurement and determined that it complied with the CBS process.

10.45 At approximately the same time, the Province partnered with the other three Atlantic Provinces to provide on-line access to provincial databases. This resulted in the formation of Atlantic Canada On Line (ACOL). The PPR electronic registry is operated through ACOL. The Province pays a fee based on the number of transactions in exchange for the provision of service and for the perpetual right to use the software. ACOL receives fees from users of the system, subtracts the usage fees based on the agreement and remits the remainder to the Province. The fees paid by users of the system were established by Regulation with the inception of the Personal Property Registration System in November 1997. Similar to Registry fees, there is no relationship between the PPR fee and the cost of service provided. See Exhibit 10.7 for comparison of fees collected by ACOL to PPR revenue recorded by the Province.

10.46 The Personal Property Registry Operating Agreement between the Province and the private partner to ACOL allows the Province to audit the provision of the service and the status of Provincial accounts. The Province has delayed performing an audit under this clause of the agreement as other provinces have recently joined the partnership. We have been advised the Province is contemplating a jointly conducted audit with the other partner provinces. We recommended that the Province complete an audit in this area.

10.47 The final phase of the project was a post-implementation review conducted jointly between the Division and the supplier. The review was to discuss how the system was working, and to make suggestions on improvements to the process for future similar projects. The review also included a survey of internal and external users, and the results were primarily positive.

10.48 Since the implementation of the PPR system, LIS and the supplier have also conducted annual reviews to see where the project stands relative to expectations. To date, the usage, and accordingly revenues received by Nova Scotia, have been slightly lower than the predictions in the business case although the revenues received have been higher than those previously received by the Department. According to LIS management, the national trend in recent years has been lower revenues from property registrations. A management committee with representation from both the supplier and the Department meets every six weeks to discuss current status. This issue is important to the supplier, as they do not receive full compensation for their development costs unless the revenues meet or exceed the targets in the business case.

10.49 The Division believes that with the success of the modernization of the Personal Property Registry, the Registry could be of greater use to other Provincial departments if its benefits were more widely known.

10.50 The modernization of the Personal Property Registry through ACOL in cooperation with the other three Atlantic Provinces was a good example of using the CBS process to provide an improved service to the people of Nova Scotia. The costs and risks of developing the new Personal Property Registration System were borne by a private partner and the Province has received higher levels of revenue than the previous system provided. We commend the Division for its implementation of this project.

Environmental and Application Controls for Computer Installation

10.51 Our review of environmental and application controls focused on the Deeds On-line Registration and Information System (DORIS), a basic electronic system for tracking real property transactions.

10.52 DORIS was designed and implemented several years ago and transferred from the Department of Justice. It does not have on-line access availability for the general public.

10.53 Overall, we found organizational controls, development and program change controls, operations controls, logical access controls, DORIS application controls, documentation controls and disaster recovery and contingency planning to be satisfactory. We had minor concerns which have been discussed with Division management.

CONCLUDING REMARKS

10.54 Land is the foundation for much of the Province's economic activity. Projects such as E-911 and natural gas distribution rely on geographic information provided and maintained by LIS.

10.55 Our audit resulted in the conclusion that improvement is required in the following areas of the Division's performance.

- Resources should be allocated to projects during the strategic planning phase.
- Improved reporting on performance is required to keep stakeholders adequately informed on the Division's activities.
- The level of fees charged for services should be supported by appropriate analysis.

Exhibit 10.1

LAND INFORMATION SERVICES
CURRENT SITUATION - EXTRACT FROM DEPARTMENT PLAN

The basic geographic information infrastructure is in place, and we are positioned to begin capitalizing on our significant investment. A number of trends and pressures are influencing the direction government is taking in this field:

- requirement to include municipalities as key partners
- increased demand for streamlined business processes
- pressure from the legal community for new ways to convey property (e.g. titles insurance)
- increased burden to store and protect archival paper records; increased reliance on technology and partnerships to reduce data costs
- increased demand from technologically sophisticated users for more and better geographic information for new and innovative applications
- increased accessibility to technology providing demand for data and technology solutions to a variety of non-government community organizations

Exhibit 10.2

LAND INFORMATION SERVICES DIVISION
ORGANIZATION CHART

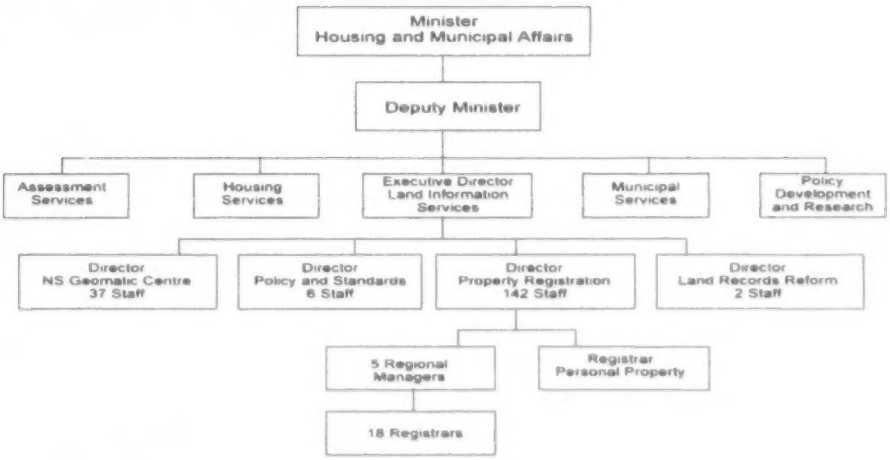


Exhibit 10.3

LAND INFORMATION SERVICES
10 YEAR VISION - EXTRACT FROM DIVISION PLAN

- the sharing of land-related information among provincial, municipal and federal agencies, private firms and individuals
- the capture of information once, as close to the source of the changes as possible: the registration of a deed or approval of a subdivision plan triggers an automatic update to the Nova Scotia Property Ownership Database
- electronic access points to a variety of land-related information services: a one stop shop where an individual can register a deed, acquire an air photo, or obtain the assessed value of their property
- a dispersed network of local access points, including remote electronic access from office or home
- an information environment which allows for streamlining of approval and decision processes
- direct economic benefit through partnerships with the private sector

Exhibit 10.4

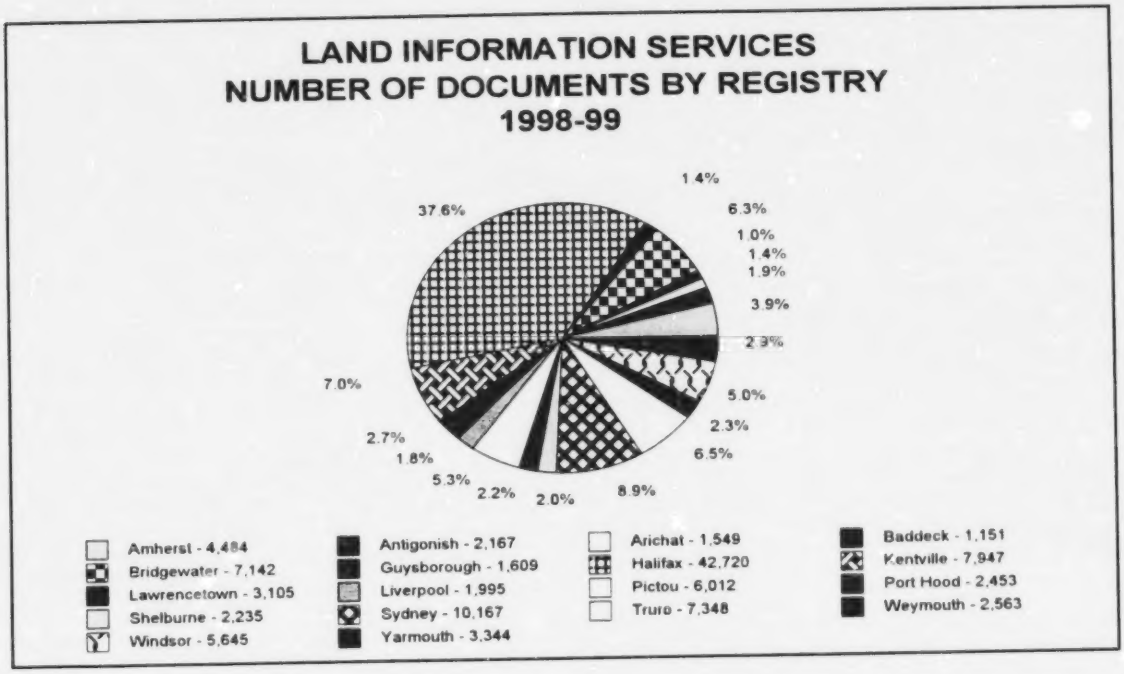
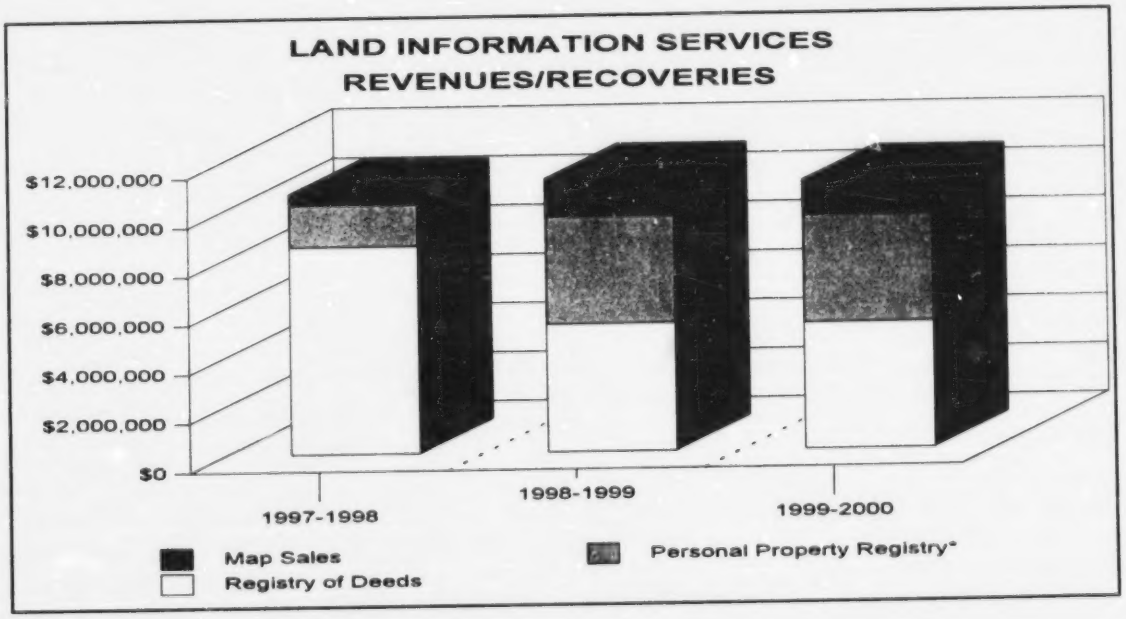


Exhibit 10.5



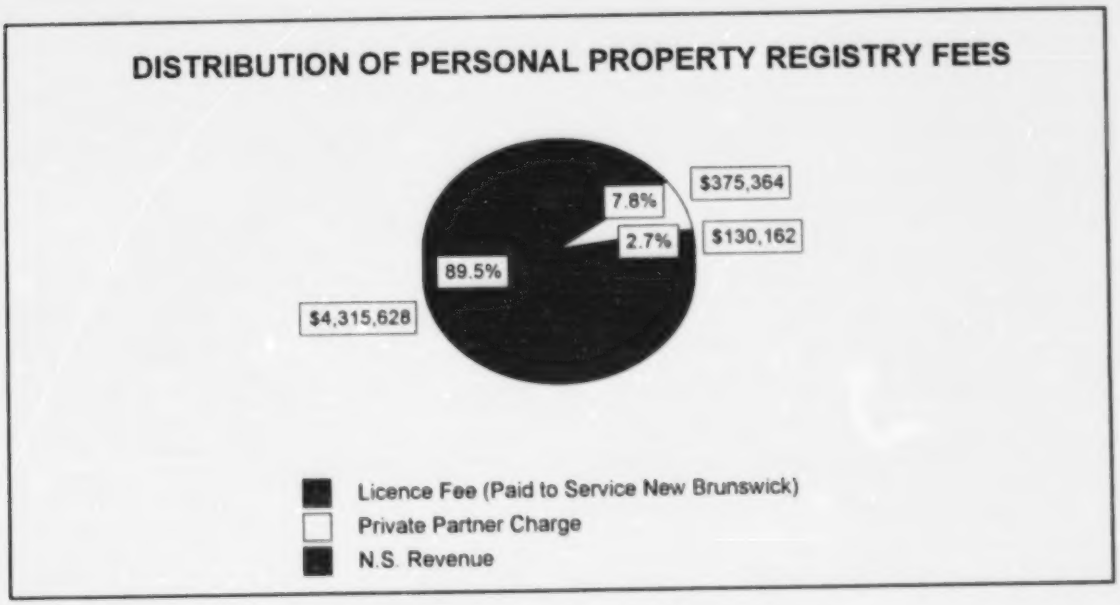
**Separated from Registry of Deeds revenue in November 1997*

Exhibit 10.6

LAND INFORMATION SERVICES
EXAMPLES OF FEES CHARGED

Fees for Registry of Deeds	
For entering and registering all documents	$40.00
Copying or typing into records - per page	$1.00
For all documents or plans required to be filed, each	$30.00
For certifying or furnishing number, date, time or any other information for each such document	$10.00
For searching any books, indexes or files per person per half day	$5.00
For supplying copies of recorded or filed documents, plans, etc. for each page copied by a copier - per page	$1.00
For preparing foreclosure certificate or any other certificate of title required in any other action or proceeding in any court when required of the registrar by statute	$125.00
Personal Property Security Fees	
To effect a registration where the period of time during which the registration is to be effective is 1 to 25 years	
- initial registration fee	$20.00
- plus for each year of the period, per year	$7.00
To effect a registration where the period of time during which the registration is to be effective is infinity	$500.00
To search the Registry, per search	$7.00
Retail Fee Schedule for Land Information Services Products and Services	
To access the Map Library, per person per half day	$5.00
Long distance fax, per page	$3.00
Local fax, per page	$2.00
Photocopy, per page	$1.00
Topographic Map of Nova Scotia & Prince Edward Island (1:500,000)	$8.00
Digital Topographic Map of Nova Scotia (1:500,000 Planimetric)	$100.00
Nova Scotia Map Book	$14.95
Property Map (diazo paper)	$15.00
Control Monument Coordinates (Prov. "short list" microfiche)	$5.00
Nova Scotia Property Records Database On-line access, max. 5 hours per month	$75.00

Exhibit 10.7


DISTRIBUTION OF PERSONAL PROPERTY REGISTRY FEES
$375,364
7.8%
$130,162
2.7%
89.5%
$4,315,628
Licence Fee (Paid to Service New Brunswick)
Private Partner Charge
N.S. Revenue

CROWN AGENCIES AND CORPORATIONS

11.

NOVA SCOTIA LIQUOR COMMISSION

BACKGROUND

11.1 The Nova Scotia Liquor Commission derives its mandate from the Liquor Control Act. It is responsible for the purchase, distribution and sale of liquor within the Province. In addition, the Commission may own or lease premises to sell liquor, grant licences and permits to purchase or use liquor for specialized purposes (eg., by hospitals or physicians) and determine, subject to the approval of Executive Council, the municipalities within which liquor may be sold. The Liquor Control Act mandates a separate agency - the Nova Scotia Alcohol and Gaming Authority - to grant licences to operate establishments for the sale and consumption of liquor.

11.2 The Act also gives the Commission a responsibility to regulate various practices of brewers, distillers and vintners such as marketing, advertising and packaging. In addition, the Commission regulates micro-breweries, farm wineries and manufacturers' retail stores, and the possession and use of liquor by groups and individuals.

11.3 The Commission was established in 1930 when the Liquor Control Act was passed into law. It is governed by a Board of up to three Commissioners who are appointed by Executive Council for ten-year terms. They are accountable to the Minister responsible for the Liquor Control Act who, at the time of the writing of this Report, was also the Minister of Tourism and Culture. On December 31, 1998 the term of one of the Commissioners expired, and the position was still vacant at the time of our audit.

11.4 The Commission operates 100 self-service stores throughout the Province. The head office and distribution centre used to supply the stores are located in the Bayers Lake Industrial Park in Halifax. The largest concentration of liquor outlets is in the Halifax Regional Municipality, where 34 of the stores are located. As of March 31, 2000 these stores accounted for approximately 43% of the Commission's sales revenue.

11.5 The Commission's net income from operations was $135.2 million for the year ended March 31, 2000. The Commission's net sales for this period were $371.4 million. Costs associated with store operations were $33.8 million and costs associated with administration and warehouse distribution totalled $12.4 million.

11.6 All profits of the Commission are transferred to the Department of Finance by way of regular payments throughout the year. Over and above net income, Harmonized Sales Tax collected on behalf of the Provincial and Federal governments was approximately $54.2 million for the year ended March 31, 2000, of which the Provincial share was $28.9 million.

11.7 Additional financial and statistical information relating to the Commission is provided in Exhibits 11.1 to 11.3, beginning on page 199.

RESULTS IN BRIEF

11.8 The following are the principal observations from this audit.

- The Board of the Commission performs its governance responsibility reasonably well.

- The number of Commissioners should be expanded beyond the maximum of three allowed by the Liquor Control Act in order to increase the effectiveness of the governance function.
- No formal performance evaluation is prepared for any member of senior management.
- The annual report lacks substantive information on the performance of the Commission, and thus does not fulfill its potential as an accountability document.
- The Liquor Control Act is out-dated in areas and is in need of significant review.
- The Commission is complying with key provisions of its enacting legislation and regulations, but should give more attention to its regulatory responsibilities in its key planning and accountability documents.
- The Commission is giving due regard to economy and efficiency in the planning, management and monitoring of its operations.
- The scope of internal audit activity should be broadened and changes should be made to enhance the independence of the internal audit function.

AUDIT SCOPE

11.9 In March 2000 we completed a broad scope audit of the Nova Scotia Liquor Commission under the mandate established by Sections 8 and 17 of the Auditor General Act. Our audit was performed in accordance with auditing standards established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

11.10 The objectives of this assignment were to assess:

- the Nova Scotia Liquor Commission's governance structure and practices;
- the level of compliance of the Commission with key provisions of its enacting legislation and regulations; and
- whether the Commission gives appropriate attention to economy and efficiency in planning, operating and monitoring its business.

11.11 The audit criteria developed for our examination of the Commission's governance structure and practices were derived from CCAF-FCVI Inc.'s *Six Principles of Effective Governance*. Audit criteria for the other objectives of the audit were designed specifically for this assignment. The audit criteria were discussed with and accepted as appropriate by senior management of the Commission, and are outlined in Exhibit 11.6 on page 203.

11.12 The Commission's response to this audit is on page 205.

PRINCIPAL FINDINGS

Governance

11.13 *Audit conclusion* - We concluded that the Board of the Commission performs its governance responsibility reasonably well. There is a need to improve the accountability process as it relates to senior management, and to improve disclosure of governance and performance information in the Commission's reporting to the House of Assembly and public.

11.14 *Audit approach* - We conducted comprehensive surveys of the two Commissioners and two members of senior management who also regularly attend Board meetings to determine their views on certain issues impacting the role and effectiveness of the Board. In addition, each Board member was separately interviewed and various reports provided to and produced by the Board were examined.

11.15 *Board of Commissioners* - Commissioners of the Nova Scotia Liquor Commission are appointed by Executive Council and report to the Minister responsible for the Liquor Control Act. The Act provides for a maximum of three Commissioners to be appointed for ten-year terms. At the time of our audit there were only two Commissioners since one Commissioner's term expired on December 31, 1998 and the position was still vacant.

11.16 The Liquor Control Act defines various accountabilities and responsibilities of the Commissioners. However, some of these responsibilities are inconsistent with normal governance practices for government and profit-oriented organizations. The Act requires certain procedures and approvals of the Commissioners, the Minister and Executive Council which are not typical of other crown agencies in Nova Scotia. For example, the Liquor Control Act states:

- Executive Council may prescribe terms of employment and salaries, as well as duties and powers of Commission staff [Section 17].
- Every order for the purchase of liquor shall be authorized by the Chief Commissioner or by a person authorized by the Minister [Section 31(1)].
- The sale of liquor to the Commission by a brewer, distiller or vintner requires the approval of the Minister [Section 63(1)].
- Executive Council approval is required to purchase, lease, sublet or sell any land, building or other property [Sections 12(f) and 16].

11.17 An important part of corporate governance is having an appropriate allocation of responsibility between management and the governors. In our view, consideration should be given to assigning such responsibilities to a lower level.

11.18 We observed that attendance at Board meetings is very good and meetings are held on a regular basis. We found that Commissioners receive an orientation to the operations of the Commission upon joining the Board and are provided with sufficient other training and information to fulfill their responsibilities.

11.19 The responses to our survey indicate that the Board is satisfied with its effectiveness. However, respondents also feel that the number of Commissioners should be expanded beyond the maximum of three allowed by the Act in order to increase the effectiveness of the governance function. The current size hinders the Board from accessing a broader range of knowledge and experience which additional members would bring to the Board. For example, the current Board has

no individuals with extensive experience in accounting, finance or retail merchandising. Additionally, the small Board size prevents a committee structure from being created and results in the full Board dealing with issues more effectively dealt with at a committee level (e.g., review of monthly financial statements, communication with auditors, human resource issues).

11.20 A Board comprised of individuals with diverse knowledge, skills and experience improves a Board's governance function. To achieve this, there should be specific criteria established to assist in the selection of new Board members. We found that the Commissioners have approved minimum background requirements for candidates for the current vacancy. We encouraged the Board to have a third Commissioner appointed as soon as possible and to pursue changes to the Act that would allow Board membership to be further expanded.

11.21 The current Commissioners were both appointed at the same time, and thus their terms will expire on the same date. In our view, this highlights the need for future Board members to have the expiration of their terms staggered so that continuity of Commission-related experience and knowledge is preserved as members retire and new members join the Board.

11.22 *Goals and strategies* - The Commission prepares an annual business plan, which is provided to the Provincial government. The 2000-01 business plan of the Commission was included in government's publication entitled *The Course Ahead*. The Commission's plans outline, among other things, its mission statement, strategic goals and plans for achieving them. We reviewed the process for preparing the annual business plan and found that Commissioners are appropriately involved. Commissioners and senior management meet in the fall each year to discuss current year's performance as it relates to last year's plans, and to develop and approve the strategic goals and plans for the ensuing year. The Commissioners use the business plan as the primary instrument for reviewing the progress of the Commission and the performance of management.

11.23 The mission statement (see Exhibit 11.5 on page 202) was prepared and approved during the term of previous Commissioners, but has been formally accepted by the current Commissioners. The statement is supported by guiding principles which direct how each segment of the Commission's mission is to be achieved. Ethical values have been integrated into the guiding principles, and have been adopted by the Board as guidelines for their own conduct, as well as for the conduct of management and staff of the Commission.

11.24 *Governance information* - An integral part of governance is obtaining appropriate, timely information about the operations of an organization. For the Board of the Commission, this is accomplished through regular meetings of the Board to receive reports from management and to monitor progress in meeting strategic goals. In addition, there is an annual audit of the Commission's financial statements and the Board will call special meetings and make requests of management for additional information.

11.25 As part of our audit, we examined minutes of Board meetings and reports presented to the Board. We found that the Commissioners regularly discuss and challenge the information being presented in reports from senior management. However, from our survey of and discussions with the Commissioners, we noted that at least one Commissioner was not fully satisfied with the nature and completeness of information provided to him. This leads us to believe that there may not be a full understanding and communication of the information needs of the Board of Commissioners. We recommended that the Commissioners formally define the nature and extent of information they require for effective governance and request management to present it to them on a regular and timely basis.

11.26 *Relationship between board and senior management* - The most senior managerial position at the Commission is referred to as the General Manager. The current General Manager was selected

by the Commissioners in 1993 based on a nation-wide search. Upon recommendation of the Chief Commissioner at that time, he was subsequently appointed by Executive Council. The General Manager is formally accountable to the Chief Commissioner, and a written position description was prepared to define his role and responsibilities.

11.27 However, we observed that no formal performance evaluation is prepared for any member of senior management. We believe effective governance includes a formal, documented process of holding management accountable for their performance. In our view, Commissioners should perform a formal evaluation of the General Manager's performance each year. The Commissioners should require the General Manager to do likewise for other members of senior management, and the Commissioners should have input into and be apprised of the results of the evaluations.

11.28 *Accountability* - Under Section 22 of the Liquor Control Act, the Commission is required to present its annual audited financial statements to the House of Assembly within 15 days of the House's opening subsequent to the preparation of the statements. We observed that the Commission's Annual Report for the year ended March 31, 1999 was approved by the Board at its November 15, 1999 meeting. The report was subsequently sent to the Minister, who tabled it in the House of Assembly on January 18, 2000.

11.29 We believe seven and one-half months is too long a delay for reporting on the performance of an organization. We recommended that the annual report be prepared and approved on a more timely basis. Also, since the House opened for its 1999 fall session on October 7, and the Commission's external auditors completed their audit before that date, we believe the Commission did not fully comply with the statutory requirements for tabling its financial statements.

11.30 Also, we observed that the annual report lacks substantive information on the performance of the Commission, and thus does not fulfill its potential as an accountability document. The report does contain the mission statement and audited financial statements. However, it mainly discloses historical information concerning liquor volumes and sales and does not include important planning and performance information such as the Commission's annual goals, budget and measures of performance. Some performance information is included in the Commission's annual business plan, which has been available to the public during the last couple of years due to a government initiative to gather and report the business plans of certain crown corporations and agencies. However, we believe the public would have a greater expectation of finding performance information in an annual report, and likely would be more aware of the existence of such reports.

11.31 We reviewed annual reports prepared by liquor commissions and boards in other provinces and found that in one report a complete section was devoted to corporate governance. It provided the reader with a clear sense of the role and responsibilities of the organization's Board and we believe such information would be useful to readers of the Nova Scotia Liquor Commission's annual reports.

11.32 The Chief Commissioner is formally accountable to the Minister responsible for the Liquor Control Act. We noted that the Minister receives copies of the minutes from all Commission Board meetings, as well as key documents such as the Commission's annual report and business plan. In addition, the Chief Commissioner meets with the Minister periodically to discuss issues related to the Commission and the liquor industry.

Compliance with Legislation and Regulations

11.33 *Audit conclusion* - It appears to us that the Liquor Control Act is outdated in areas and is in need of significant review. We concluded that the Nova Scotia Liquor Commission is complying with key provisions of its enacting legislation and regulations, but should give more attention to its regulatory responsibilities in its key planning and accountability documents.

11.34 *Audit approach* - We examined the Liquor Control Act and all regulations pertaining to it. Commissioners and senior managers were interviewed to determine their knowledge and application of the Act and its regulations. We also reviewed the plans, policies and training programs of the Commission to assess consistency and attention to legislation and regulations. As well, we examined reports and other documents relevant to this audit area.

11.35 *The Liquor Control Act* - The Liquor Control Act was proclaimed in 1930. The Act is lengthy and dedicates much of its attention to controlling the distribution, sale and use of liquor with the objective of minimizing its negative affects on society. However, some of the protective procedures and restrictions built into the legislation may be inconsistent with the modern-day legal, business and social-responsibility practices of government.

11.36 As illustrated in paragraph 11.16 above, the Act imposes a higher degree of oversight on the part of Executive Council, the Minister and the Commissioners, than is normal in other government businesses. In addition, it requires the Department of Finance to perform various procedures. Certain of these requirements are generally not complied with. These include:

- approval of all liquor purchases by the Chief Commissioner or a person authorized by the Minister [Section 31(1)];
- approval of Minister of the sale of liquor to the Commission by a brewer, distiller or vintner [Section 63(1)];
- checking and auditing of the Commission's receipts at least every month by the Minister of Finance or a person designated by him [Section 26]; and
- approval by the Department of Finance of the bank accounts the Commission uses [Section 20(2)].

11.37 Further, the Act appears to have weaknesses relating to enforcement. For example, the Act specifies a number of legal and regulatory requirements, but is not always clear on who is responsible for enforcing them. In practice, enforcement of the Act generally rests with the Alcohol and Gaming Authority and various police agencies. One way of making responsibilities clearer may be to place liquor control requirements (e.g., monitoring and enforcement) into a separate piece of legislation since most of these responsibilities lie with groups other than the Liquor Commission.

11.38 The Act also provides certain powers to enforcement officers and courts of law that, on the surface, appear to be at risk of legal challenge (e.g., imposing a burden of proof on a defendant), and has certain prohibitions that are nearly impossible to enforce diligently (e.g., drunkenness in any house). The Act has a very wide definition of what constitutes liquor, which in the past has caused confusion on the part of the government and enforcement agencies with respect to high alcohol content products sold in grocery and convenience stores (e.g., cooking wines and bitters). As well, the Act restricts the giving of alcohol as a gift, except as permitted by regulations. However, regulations are silent on this matter.

11.39 The Liquor Control Act permits only stores operated by the Commission to sell liquor. This provides the Commission with the authority and power needed to control the sale and consumption of liquor in Nova Scotia. However, the conditions of the Act in this area are so stringent that it prevents the Commission from engaging in some alternative means of serving the public. Many other provinces in Canada have privately-owned 'agency stores' which purchase their liquor from a provincial liquor authority and are closely monitored and regulated by the authority. The Nova Scotia Liquor Commission would need legislative amendments to enter into similar arrangements.

11.40 It appears to us that the Act is in need of significant review. Based on discussions we had with Liquor Commission management and Commissioners, there have been a number of attempts by the Commission to have the legislation modernized. However, none of the attempts have been successful. In our view, it is not in the public interest to have legislation that is not conducive to good governance and business practices, and which does not apply reasonable and modern approaches to public protection. We recommended that government conduct a comprehensive review of the Liquor Control Act.

11.41 *Legislation awareness and communication* - The Commission has a broad mandate and a wide range of responsibilities under the Liquor Control Act. As discussed above, it has a mandate to operate a retail liquor operation for profit, as well as having a responsibility to act as a regulator of the distribution, sale and consumption of liquor. Our audit indicated that Commissioners and senior managers are appropriately aware of the requirements of the Liquor Control Act and its regulations. We determined, through discussions with senior management, that they are confident that the Commission is complying with all significant Provincial legislation and regulations.

11.42 We examined the policies of the Commission and found that they are either derived from or consistent with the Liquor Control Act and regulations. Policy manuals are reviewed and updated annually. Changes to the Act and regulations are discussed at senior management meetings and policy manuals are subsequently updated. Staff are informed of changes either through formal training or correspondence.

11.43 However, we noted an absence of attention to the Commission's regulatory responsibilities in some of its key planning and accountability documents. The Commission's business plan and mission statement are the key documents used to outline the reason for the Commission's existence, how it is to operate and the goals and strategies it has formulated for the current and future years. Our examinations indicated that the business plan was prepared taking the Act and regulations into account, but generally does not give much attention to the Commission's role as regulator of liquor distribution, sale and consumption. Almost all of the plan is focussed on the Commission's retail operations. We observed a similar lack of attention to the Commission's regulatory role in its Annual Report and the General Manager's position description. Considering the importance of these regulatory responsibilities, we believe they should be given more attention in such key documents.

11.44 *Social responsibility* - The Commission indicates in its mission statement that it "*shall strive to operate in a socially responsible manner*" (Exhibit 11.5 on page 202). Guiding principles were prepared to direct how management and staff will perform in the pursuit of the Commission's mission. One of these is "*We shall encourage consumers and society in general to develop a responsible attitude toward liquor and its consumption.*" This goal is pursued in cooperation with liquor industry social responsibility programs and often includes providing financial support to assist various public interest groups with public service advertising and by supporting certain police forces in their public awareness campaigns.

11.45 Although not explicitly defined as part of its legislated mandate, the Commissioners believe that the Commission has a corporate obligation to promote social responsibility. They cite the many areas of the Act which address control of the movement, sale and consumption of alcohol, and make the case that promoting social responsibility is in some ways a more effective means of achieving the objectives of these sections of the Act.

11.46 We noted that the task of promoting social responsibility has been assigned to the merchandising division of the Commission. It is considered to be a promotions program not unlike those which market alcohol products. One reason social responsibility is assigned to the merchandising division is that many public awareness programs are conducted jointly with brewers and distillers, who also direct these programs through their marketing divisions. However, this

assignment of responsibility for social responsibility programs appears to be in conflict with the merchandising division's larger responsibility of increasing sales for the Commission. Management has indicated to us that social responsibility is an organization-wide responsibility, and this is an issue more of appearance than substance. Considering the importance of perception in the success and acceptance of public programs, we have recommended that the responsibility for social responsibility programs be reviewed.

11.47 *Managing compliance* - Based on our review, compliance with legislation and regulations appears to be a priority of the Commission. Managers we interviewed have a reasonable knowledge of and respect for the Liquor Control Act and regulations. There are numerous policy and procedure manuals maintained at head office, and we determined that they appropriately incorporate and convey the legal requirements under which the Commission operates.

11.48 We found that store procedure manuals are based upon the policies of the Commission. Regional managers visit stores on a regular basis and, as part of their visits, ensure that the procedure manuals are being followed. Major changes to procedures are communicated through additional training for staff. To promote staff development and advancement, the Commission has developed training modules. These modules address changes to the Act and regulations. New employees are required to complete an orientation module which includes information about the Commission's mission statement and sections of the Act and regulations which all employees are required to know.

11.49 The Internal Audit and Security Division of the Commission conducts stores audits and, as part of these audits, ensures compliance with the policy and procedure manuals.

11.50 One provision of the Act requires the Commission to control and supervise the advertising and marketing practices of manufacturers, distributors, agents and their representatives. This responsibility has been assigned to the merchandising division. The rules governing advertising are in the regulations to the Act. The Commission prepared advertising policies and procedures based on the legislation and provided them to all members of the liquor industry operating in Nova Scotia. The Commission has not dedicated staff to the pre-approval of advertising to ensure compliance with the regulations. Only in-store advertising plans by liquor industry members are vetted through the merchandising division. For external advertising, the industry is required to follow rules of the Canadian Radio-television and Telecommunication Commission (CRTC) for advertising. Changes to CRTC rules are communicated to the industry by the merchandising division. The division reviews major publications for print advertising. However, the industry is essentially self-regulating for compliance with the advertising regulations and is informed to contact the Commission if in doubt about compliance.

11.51 *External reporting* - Our review of external reports of the Commission revealed that they do not contain information on compliance with legislation. In discussions with senior management, it was indicated that reporting on compliance would be done on an exception basis (i.e., if a significant violation of legislation occurred). In our view, external reporting should be more pro-active with respect to compliance and state the key pieces of legislation and regulations pertaining to the Commission, the Commission's responsibility for ensuring compliance with them, generally how compliance is managed and ensured, and an assessment of its performance in this area.

Value-For-Money

11.52 *Audit conclusion* - We concluded that the Commission is giving due regard to economy and efficiency in the planning, management and monitoring of its operations. Reporting of the Commission in this area could benefit from more quantification of performance targets and results.

11.53 *Audit approach* - Our examination of due regard for economy and efficiency addressed all Commission expenses, with the exception of the purchase of merchandise for resale. Accordingly, we examined areas such as salaries and benefits, leasehold and other store costs, warehousing and distribution costs, and the procurement of goods and services. Our examination included review of operational planning, inspection of budgetary and other cost-control systems, and testing of a sample of expenditure transactions. An analysis of Commission expenses for the years 1998 to 2000 is presented in Exhibit 11.1 on page 199.

11.54 *Planning* - The business plan, as stated above, is the key document used by the Commission to communicate its goals and strategies for the current and future years. It contains information on performance in achieving the current year's strategic and financial goals and presents, at a summary level, the following year's budget. The various divisions within the Commission prepare operational plans to implement the strategies outlined in the business plan.

11.55 We observed that the Commission addresses many economy and efficiency issues in its business and operational plans. The primary focus of most plans is to improve the "bottom line" of the Commission through controlling costs and increasing sales. The Commission has reported considerable success in this area. Since 1991, net income has risen from $109 million to $135 million (for the year ended March 31, 2000), an increase of 23.9%. During the same period, store operating expenses, expressed as a percentage of sales, declined from 9.2% to 9.1%. Administration expenses declined from 5.1% of sales to 2.3%.

11.56 Information used by the Commission to measure performance is generally financial in nature and often expressed as a ratio (e.g., store operating expenses as a percentage of sales). Such information is regularly conveyed in various management reports, reports to the Commissioners and in the business plan. However, our review of the business plan and other reports of the Commission showed us that reporting on success in achieving goals is often qualitative rather than quantitative. Where possible, performance reporting should include quantitative measures that are compared with pre-determined targets, and supported by explanations for significant variances.

11.57 *Procurement* - The Provincial government's procurement policy applies to all its departments, agencies, boards and commissions. The Commission has developed a policy and procedure manual for procurement which incorporates all requirements of the government's policy. The Commission regularly uses the government's Public Tenders Office to conduct tenders, and uses government standing-offers in the procurement of items such as office equipment. Office and other supplies are purchased centrally to take advantage of lower prices available upon bulk purchases, as well as to provide a means of monitoring the use of supplies by the various divisions and stores. A business case must be prepared to support the request for new computer equipment, and it must illustrate that the equipment will recover its cost through efficiencies or higher profits.

11.58 We selected 26 purchases from the eight-month period ending November 30, 1999 to evaluate the Commission's compliance with its procurement policy. In general, we concluded that the Commission, in all material respects, follows its procurement policy and gives due regard for economy in its procurement function.

11.59 The Commission operates 100 liquor stores, 61 of which are in leased premises. The Commission procures its own leased space. Although government property management policies do not apply to the Commission, or any other crown agency which has its own property management function, we thought it would be useful to compare the Commission's facilities procurement practices to government's policies which we have previously assessed as including due regard for economy.

11.60 For the most part, the Commission's leasing policies were compatible with those of the government. One area where the Commission's policies may not be fully consistent relates to the leasing of retail space. The Commission will not always tender for retail space because the location of a liquor store is extremely important to its success. Sometimes, the Commission will determine the best site for a new or relocating store based on market and demographic studies, and negotiate directly with a landlord for space in the chosen area. Government leasing policies do not provide an exemption from tendering for retail space, perhaps because it is not common for government departments and agencies to provide retail service. The Commission sought an exemption from government for retail leasing practices, but have not yet been informed of the results. However, based on our audit, the Commission's practice for locating stores is reasonable in light of the fact that consideration must be given to a store's future revenues as well as costs.

11.61 We selected 13 lease transactions and examined them for compliance with the Commission's policy and determined whether they would be acceptable under the government's policy. We found that each of the leases was in compliance with the Commission's policies. The primary variations with government policy related to occasionally using invitational bids instead of tenders, having a lease remain on a month-to-month basis for over a year, and having original and option lease periods different from the government norms. In our view, none of these differences significantly affected the Commission's ability to achieve economy in these transactions.

11.62 However, there are three lease transactions which, in our view, warrant additional reporting.

- Lease payments totalling $14,659 were made for two months before the store opened due to delays in completing construction. For this lease the Commission requested proposals from three sources and the lowest proposal was not accepted. The Commission accepted a higher proposal as the location had better store visibility and offered better access for delivery of inventory.

- There were two leases where stores were being relocated and rent was paid for both the old and new locations, resulting in $20,571 in additional rental costs.

11.63 While the above-noted amounts are not material, we are concerned that the Commission's leasing practices permit rent to be paid before a store is opened and stores to be relocated before their leases expired.

11.64 *Space and location decisions* - The Commission has a property management division which is responsible for acquisition, layout design, and management of the space required by the Commission. The Commission's head office and warehouse facility were constructed in 1987 and were acquired under a capital lease. Of the Commission's 100 liquor stores, 39 are in Commission-owned buildings and the remaining 61 are in leased premises.

11.65 The Commission has a physical resource plan which determines the layout and size standards for stores. It is updated annually and approved by the Board. Market studies are sometimes conducted to assist in store location and renovation decisions. These studies show, for example, the demographics and shopping patterns of customers in the areas served by stores. In addition, liquor stores are stratified into three categories according to sales per square foot. These benchmarks, along with the market studies and certain other information, are used to monitor store performance. Based upon this information, changes necessary to achieve optimal store size are incorporated into the physical resource plan.

11.66 The Commission's philosophy is that it is primarily a retail business. Management believes greater operational flexibility is achieved by leasing rather than owning retail space. Leasing enables the Commission to more easily adjust store sizes and to obtain more desirable locations as

demographic, traffic and customer trends change. This flexibility can promote store economy and efficiency, as well as profitability. For example, the Commission had a net increase of eight stores since 1993 (all in leased premises), but the total amount of store space (owned and leased) was reduced in this period by 90,199 square feet. This was accomplished by down-sizing certain stores and relocating others to smaller locations upon the expiration of leases.

11.67 The Commission has standard specifications for the layout, furnishing and equipping of stores. The Provincial government also has space and furniture standards which are deemed to apply to all its departments, agencies, boards and commissions. However, the Commission's head office was constructed prior to the government's current standards coming into effect, and the government standards do not address warehouse and retail space.

11.68 *Human resource costs* - A staffing plan is maintained for each of the 100 stores operated by the Commission. The plan is based, in part, upon studies of the time required to complete certain store-related tasks. There are job descriptions to support each position. A corporate staffing plan is approved by the Board as part of the annual budget process.

11.69 The Commission has experienced significant personnel reductions during the last decade or so, despite rising sales. The total number of staff (on a full-time-equivalent basis) at March 31, 2000 was 746, which represents a reduction of 155 (17%) since March 31, 1990. During the period 1987 to 1999, the Commission reduced warehouse staff from 71 to 49, and Director and Executive Director positions from 14 to 8. In addition, more store employees now work on a casual and part-time basis so the stores have more flexibility to adjust staffing levels between periods of high and low sales. Requests for new positions must be supported with evidence of the need for the position and an explanation of why the current workforce cannot do the work the position will entail.

11.70 All store and certain head office employees are members of a union. The wages, benefits and other terms of employment are established through collective bargaining with the unions. Tentative settlements are approved by the Board and sent to the Executive Council of government for final approval. A tender was conducted recently for the administration of employee benefit programs.

11.71 Commission management has reviewed management salary levels in industry, government and other liquor commissions. The Commission also obtains the results of salary surveys conducted by national consulting firms to help it assess its compensation practices. Management salary increases are approved by the Board and submitted to Executive Council for approval.

11.72 All union staff and most managers receive annual performance evaluations, and advancement to a higher level within an employee's classification is based on satisfactory performance documented in the annual evaluation. However, as described above, the performance of members of senior management (seven positions) is not formally evaluated. In our opinion, senior management should be formally evaluated on an annual basis against criteria based upon their position responsibilities. Management of the economy and efficiency of Commission operations should be specifically addressed in the performance evaluations.

11.73 It is becoming a more regular practice for governments and crown agencies in Canada to report executive salaries and benefits in their annual reports or other accountability documents. For many years, the Province of Nova Scotia has reported salaries of department employees in its Supplement to the Public Accounts. It is also a practice of public companies listed on the Toronto Stock Exchange to report senior executive salaries. Such reporting serves to make organizations accountable for their remuneration packages as well as their performance. We believe that all Nova Scotia crown agencies should report, as a minimum, the highest five salary and benefit packages in their organization. We recommended this practice to the Nova Scotia Liquor Commission.

11.74 *Information technology* - There are several computer systems in place to record and report upon various activities of the Commission (e.g., finance and accounting, point-of-sale, human resources, facilities management). The systems are not fully integrated and this has caused inefficiencies in transferring data from one system to another. During our audit, an extensive revision of the information technology system was in progress. It will integrate the various systems, except facilities management which is to remain a stand-alone system. Based upon our discussions with senior management and review of the winning proposal for the project, we believe the Commission's decision to integrate these systems has the potential to create efficiencies in information processing.

11.75 *Monitoring of divisional performance* - We found monitoring of divisional performance by senior management to be comprehensive and timely. Reports on individual store operations are prepared on a weekly basis, while most other divisional reports are produced monthly. We reviewed many of these reports and discussed use and benefit with senior management. The reports provide extensive information on operations of the stores and divisions of the Commission, contain comparisons with prior year's results and show variances from budget. In addition, a separate monthly variance from budget report is produced for each division and variances exceeding certain limits are required to be analysed and explained by division managers and reported to the senior management committee. Based on our review of the reports and the way they are used, we believe that they provide the information management needs to conduct Commission business in an efficient and economic manner.

11.76 *Performance accountability* - Senior managers are held accountable for the efficiency and economy of their divisions by the Board of Commissioners. Senior management regularly report to the Commissioners on assigned areas of responsibility and are challenged to achieve all of the goals described in the Commission's business plan. However, as discussed above, there is a need to make the process more formal through annual documented performance evaluations for senior management.

11.77 We observed that staff and other managers are also held accountable for fulfilling their responsibilities, including the efficiency and economy of their functional areas. This is accomplished through annual performance evaluations, internal audits of stores, store reviews by Regional Managers and the Director of Store Operations, and budget variance reports. In addition, regular meetings are held by Regional Store Managers with the Store Managers they supervise. Store Managers meet on a regular basis with store employees to ensure the goals of the Commission are being met and, if necessary, to take corrective action.

11.78 Store audits are conducted on a regular basis by the internal auditors of the Commission. All stores are scheduled to be audited over a two-year period. The audit scope includes areas such as inventory management and merchandising and the audits help to ensure the stores are correctly implementing Commission policies. Audit reports are reviewed with the Store Managers. The reports are also provided to the responsible Regional Store Managers, as well as members of senior management. The Regional Managers in consultation with the Store Managers are required to prepare a written response outlining corrective action planned.

11.79 However, we observed that the manager of the Internal Audit and Security Division reports directly to the Director of Finance and Systems. This creates a situation where the auditor reports to the individual responsible for some of the systems being audited. In order for auditing to be perceived as unbiased, the auditor must be independent from the areas being audited. In addition, some staff of the Internal Audit and Security Division are assigned to non-audit tasks, such as counting the physical inventory in the warehouse and participating in the design and implementation of new computer systems. Auditors may be less independent, or perceived to be less independent, if they become involved in the accounting and control functions subject to audit.

11.80 Further, most of the attention of the Internal Audit and Security Division is on liquor stores. Due to resource constraints, the Division does not give much attention to the operations of Head Office.

11.81 In our opinion, the scope of internal audit activity should be broadened to include regular evaluation of the Commission's efficiency and economy, as well as its Head Office operations. As well, certain reporting relationships and job assignments should be reconsidered in order to enhance the independence of the internal audit function. For example, in other government departments and organizations, internal auditors generally report to the deputy minister or chief executive officer, and where a Board structure is in place sometimes communicate directly with the audit committee of the Board. As a minimum, we believe the Internal Audit and Security Division should not report to the senior financial officer of the Commission.

Concluding Remarks

11.82 Based upon our audit, we believe the Nova Scotia Liquor Commission is governed in an appropriate manner, gives suitable attention to its guiding legislation and regulations, and gives due regard to economy and efficiency in its operations. We believe there is a need to expand upon internal and external accountability processes through more progressive performance evaluation and reporting. We also see a need for a major review of the Liquor Control Act with the objective of making it more consistent with modern legal, business and social responsibility practices.

Exhibit 11.1

NOVA SCOTIA LIQUOR COMMISSION
REVENUES AND EXPENSES
($ thousands)

Actual 1997-98	% of Sales	Actual 1998-99	% of Sales	Actual 1999-2000	% of Sales		Budget 2000-01	% of Sales
331,868	100.0	351,662	100.0	371,365	100.0	Sales	380,623	100.0
167,563	50.5	176,451	50.2	187,609	50.5	Cost of sales	190,499	50.0
164,305	**49.5**	**175,211**	**49.8**	**183,756**	**49.5**	**Gross Profit**	**190,124**	**50.0**
						Expenditures		
30,218	9.3	31,359	9.1	33,787	9.1	Store Operating Expense	33,767	8.9
3,563	1.1	3,774	1.1	3,850	1.0	Warehousing-Distribution	3,799	1.0
5,121	1.5	3,898	1.1	3,465	0.9	Depreciation Expense	3,468	0.9
7,762	3.0	8,306	3.0	8,522	2.3	Administrative Expense	8,591	2.3
1,157	0.3	514	0.1	1,067	0.3	Other Expense	1,085	0.3
(2,950)	(1.8)	(2,657)	(1.6)	(2,856)	(0.7)	Other Revenue	(2,232)	(0.6)
1,005	0.3	794	0.2	751	0.2	Early Retirement Program	598	0.2
45,876	**13.8**	**45,988**	**13.1**	**48,586**	**13.1**	**Total Expenditures**	**49,076**	**12.9**
118,429	**35.7**	**129,223**	**36.7**	**135,170**	**36.4**	**Net Operating Income**	**141,048**	**37.1**

Exhibit 11.2

NOVA SCOTIA LIQUOR COMMISSION
SALES AND INCOME FROM OPERATIONS
($ millions)

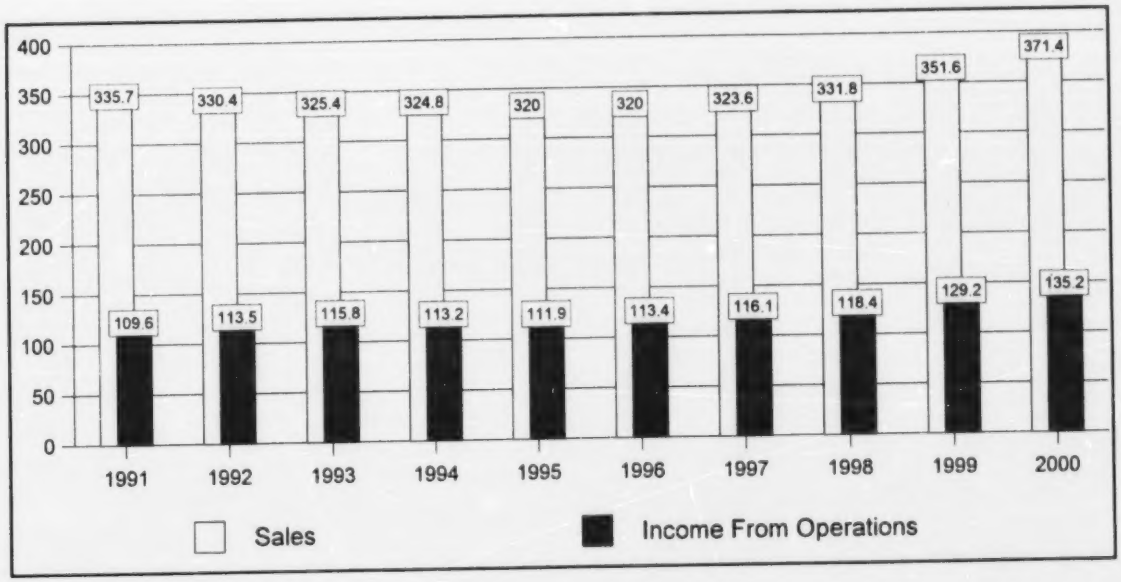


Exhibit 11.3

NOVA SCOTIA LIQUOR COMMISSION
SALES INFORMATION
YEAR ENDED MARCH 31, 2000

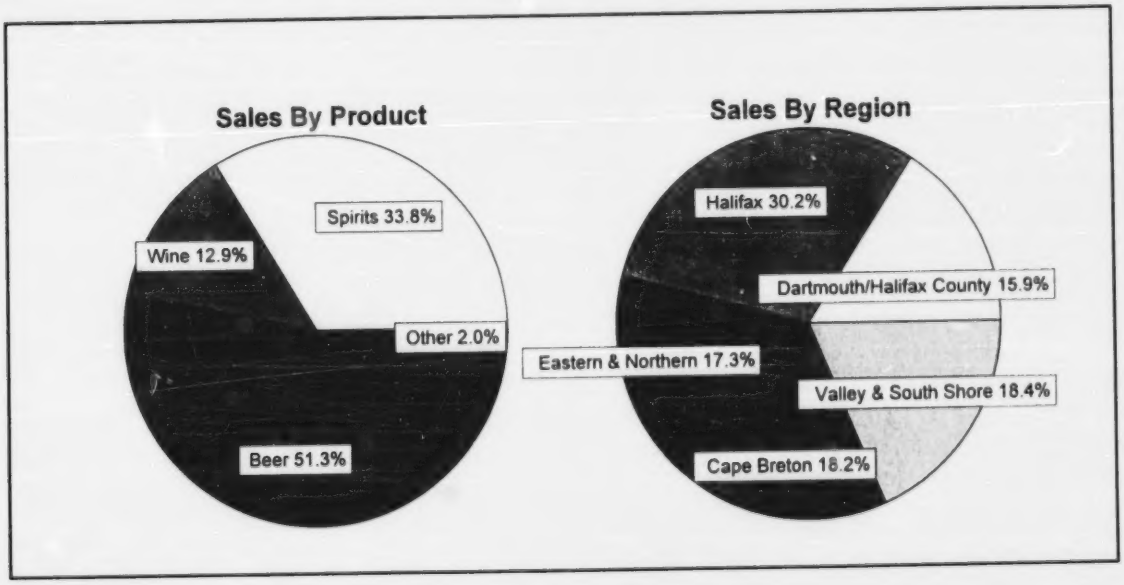


Exhibit 11.4

NOVA SCOTIA LIQUOR COMMISSION
ORGANIZATION CHART

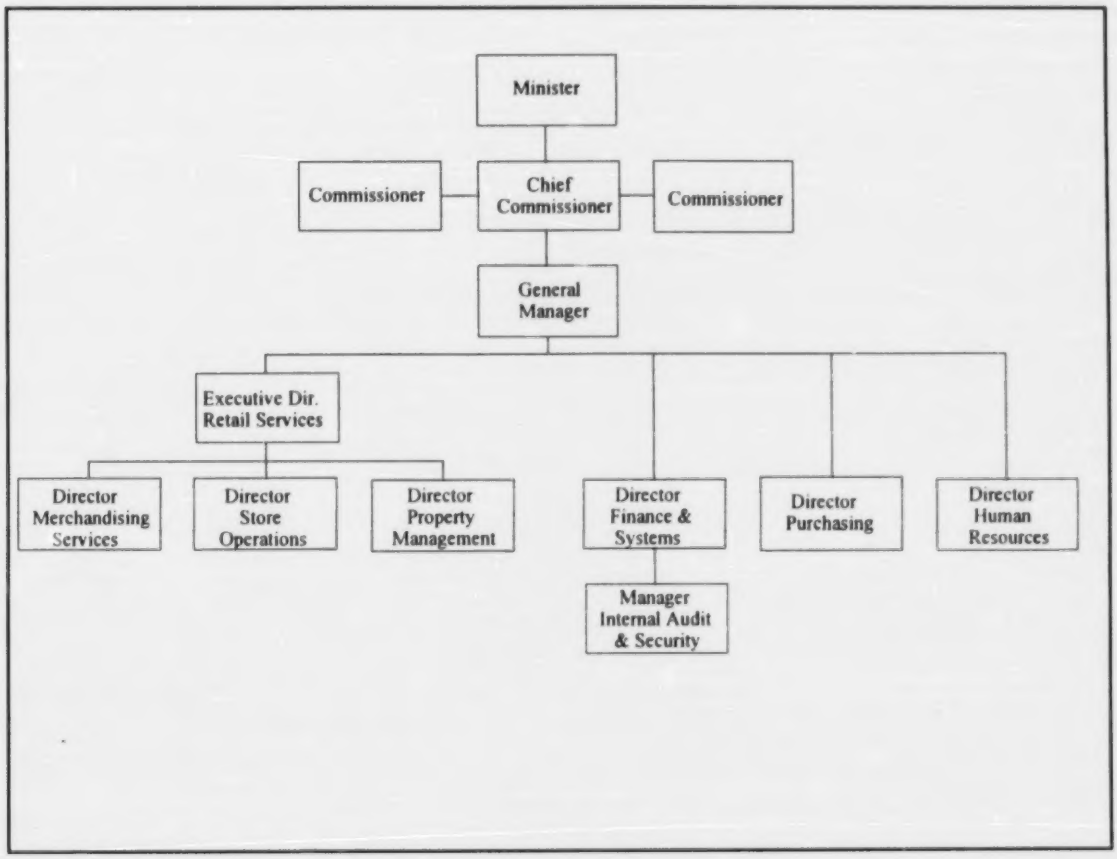


Exhibit 11.5

NOVA SCOTIA LIQUOR COMMISSION
MISSION STATEMENT

The Nova Scotia Liquor Commission regulates the sale of liquor products under the authority of the Liquor Control Act.

The Nova Scotia Liquor Commission shall strive to:

- *operate in a socially responsible manner*
- *provide responsible and progressive customer service with a variety of quality controlled products in modern facilities*
- *generate revenue as a retailer through efficient financial and operating practices*
- *provide its employees with progressive management, equality of opportunity and career development*

The management and staff of the Nova Scotia Liquor Commission are dedicated to the principles of the Mission Statement

Exhibit 11.6

AUDIT CRITERIA

Audit criteria are reasonable and attainable standards of performance and control, against which the adequacy of systems and practices can be assessed. They relate to the audit objectives developed for an assignment and are used to design the detailed audit tests and procedures.

The following criteria were used in our audit of the Nova Scotia Liquor Commission.

Governance

- The Commissioners should have the necessary knowledge, ability and commitment to fulfill their responsibilities.
- The Commissioners should understand the objectives and strategies of the Nova Scotia Liquor Commission.
- The Commissioners should understand their purpose and whose interests they represent.
- The Commissioners should understand what constitutes reasonable information for good governance and obtain it.
- Commissioners should be prepared to act to ensure that the organization's objectives are met and that performance is satisfactory.
- Commissioners should fulfill their accountability obligations to those whose interests they represent by reporting on the performance of the Nova Scotia Liquor Commission.

Compliance with Authorities

- The Nova Scotia Liquor Commission should comply with applicable provisions of enacting legislation and regulations.
- The policies of the Nova Scotia Liquor Commission should be consistent with its mandate under Provincial legislation and regulations.
- There should be systems and procedures in place to enable management and Commissioners to ensure all key provisions of Provincial legislation and regulations are complied with.
- There should be adequate reporting to inform the Commissioners, Minister and House of Assembly of the Commission's compliance with relevant legislation and regulations.

Exhibit 11.6 cont'd

Value-for-Money

- Business planning should explore means by which operations can be made as efficient and economic as possible.
- Planning should include the establishment of management expectations (i.e., goals/objectives) that relate to the efficiency and economy of operations.
- Procurement/construction projects should be conducted in an open, fair, efficient and competitive manner; in accordance with government procurement policies.
- Salaries should be the result of a competitive process (e.g., collective bargaining) or an understanding/study of the remuneration appropriate and competitive for the responsibilities entailed.
- Space and staffing decisions should be made with due regard to economy and efficiency.
- Appropriate use of Information Technology should be made to make Commission operations as efficient as possible.
- Managers should get the information they need to do their work efficiently, and the information should be used in the conduct of their operations.
- Division costs, activities and outputs/outcomes should be measured and reported to senior management on a regular and timely basis.
- Costs, activities and outputs/outcomes should be compared to each other and to management expectations (and possibly to results of other jurisdictions) on a regular basis.
- Failure to meet expectations should be analyzed and explained, and corrective action should be planned (if needed).
- Managers should be held accountable for the economy and efficiency of the areas under their responsibility.

NOVA SCOTIA LIQUOR COMMISSION'S RESPONSE

***Annual Report**: The NSLC does not agree that the Annual Report lacks information on the performance of the Commission. The report includes an executive review of the past year's operations as well as future objectives. The objective of each report is to illustrate to various stakeholders a representation of programs and activities during the past year that played a part in the overall results. The Annual Report includes audited financial statements and a number of exhibits outlining statistics as well as commentary on performance. Based upon the standard requirements of Annual Reports, the NSLC does meet them. We would suggest that our annual Business Plan and Budget contains the necessary accountability that the Auditor General refers to in their principal findings.*

***Internal Audit Activity:** The Internal Audit Department of the NSLC prepares an annual plan for approval of senior management. Because of the nature of the business, retailing, the on-going work effort is the review and formal audit of our retail stores. Loss Prevention personnel also conduct risk assessment of these outlets. Both the internal audit and loss prevention area assess and conduct information systems reviews/audits, operational reviews/audits and manufacturer reviews/audits. Since there are no specific areas indicated by Auditor General in which independence has been compromised, we will continue to review mission critical areas where the NSLC receives the most value. The NSLC position is that the independence of the internal audit group has not been compromised in any way and the internal audit group as well as our external auditors reinforce this position.*

***Governance:** Senior Management of the NSLC agrees with the office of the Auditor General that it is difficult at times, under the current Liquor Control Act, to carry out governance practices for government and profit-oriented organizations. We also agree that requirements of the LCA that are purely on-going business decisions are best handled efficiently when they are appropriately assigned to Senior Management at the NSLC. This has been achieved and has allowed the NSLC to be successful in meeting overall objectives of the organization.*

The Commissioners are well informed of the business operations including performance reviews on programs, projects and strategic plans. Senior Management does formally meet with the Commission and are readily available to answer inquiries or meet intermittently if business issues arise outside regularly scheduled meetings. Any requests for further information, clarification or additional reporting have been handled professionally and effectively.

The NSLC agrees that the Board needs to be diversified and have senior level expertise in areas such as retail merchandising, management experience in a large organization or finance.

***Accountability:** The NSLC agrees that our Annual Report should be produced earlier. Efforts have been made over the years to improve this and action will be taken to further improve the timing.*

***Compliance with Legislation and Regulations:** The NSLC is a successful, efficient and effective business operation. This has been achieved, not withstanding that the LCA is in need of review and is somewhat restrictive for a retail organization. The NSLC has achieved compliance with legislation and regulations through its formal business policies and procedures for all operations of the retail business. The organization does not believe that there is an absence of attention to regulatory responsibilities as the organization has an aggressive social responsibility program and*

other policies and procedures that ensure regulatory responsibilities are appropriately addressed. Work with key interest groups ensures that customers as well as the public are well educated and informed about the products sold. This commitment is reinforced through the Mission Statement and Guiding Principles, which encompass plans, objectives and strategies. As stated in section 11.42, we believe the Auditor General says it best: "We examined the policies of the Commission and found that they are either derived from or fully consistent with the Liquor Control Act and regulations. Policy manuals are reviewed and updated annually. Changes to the Act and regulations are discussed at senior management meetings and policy manuals are subsequently updated. Staff are informed of changes either through formal training or correspondence."

Social Responsibility: *It is everyone's responsibility in the organization with senior management involved in the strategies, objectives and programs with respect to social responsibility. Participation and joint efforts with other interest groups has been very successful over the years in increasing public awareness of responsible use of beverage alcohol. Therefore we do not agree that the responsibility for social responsibility programs needs to be moved to another functional area of the NSLC.*

External Reporting: *As indicated by the Auditor General in section 11.41, 11.42, 11.47 and 11.48 the priority of the Commission is compliance with legislation and regulations. Everyone interviewed has a knowledge of the Liquor Control Act and Regulations. All policy and procedure manuals appropriately incorporate and convey the requirements under which the Commission operates. Internal reporting includes performance monitoring of programs and operations resulting in polices and procedures that are consistent with the Liquor Control Act and Regulations.*

Value-For-Money: *Where possible and material to NSLC operations, quantifiable performance measures have and will be incorporated into our annual Business Plan and Budget.*

There will be occasions when rent will be paid before a retail outlet is open because there may be a number of leasehold improvements to be made as well as prestaging the customer retail service area before opening for business. There are also other occasions when the new location is only available before the lease expiry date from the transfer location. The organization always negotiates the best possible value for the NSLC considering all factors.

The Auditor General states it best in 11.63 where they indicate that the noted "amounts are not material."

Performance Evaluations: *The NSLC utilizes a performance evaluation process for its employees. The performance of senior management is evaluated on an ongoing basis and measured against their achievement of key objectives in the functional areas they are responsible for and their contribution to the overall objectives of the organization. Management and members of the Commission believe the processes in place are adequate and appropriate.*

The NSLC would like to thank the Auditor General's staff for their comments and observations. This input will be of assistance to the ongoing NSLC process of reviewing its operations to identify potential areas for change that would materially improve the organization.

12.

NOVA SCOTIA LIQUOR COMMISSION - GOVERNMENT REVIEW OF ALTERNATIVE SERVICE OPTIONS

BACKGROUND

12.1 The Nova Scotia Liquor Commission controls the possession, sale, transportation and delivery of all alcoholic beverages in the Province. It operates 100 outlets and employs approximately 750 people. The Commission had net sales of $371 million for the year ended March 31, 2000. Net income, which is returned to the Province of Nova Scotia each year, amounted to $135 million.

12.2 Our Office conducted an audit of the Commission in 2000. It focused on issues of governance, compliance with legislation and regulations, and attention to economy and efficiency. Audit fieldwork was completed in the spring of 2000 and the report on our audit was discussed with Commission management and finalized over the months leading up to the publishing of this Annual Report. Our report on the audit is in Chapter 11, beginning on page 186.

12.3 On April 11, 2000, as part of the tabling of its 2000-2001 Budget in the House of Assembly, the government announced that *"the provincial government will get out of the retail and wholesale liquor business, provided such a move makes good sense for taxpayers."* The commitment was described as being part of the government's pledge to focus on core government priorities while achieving fiscal objectives. Shortly thereafter, government initiated a process to determine its options.

12.4 The government's review of its role in the sale and regulation of alcoholic beverages was performed in the period between when we completed audit fieldwork and when we finalized the 2000 Report of the Auditor General. This Chapter provides a description of the goals, nature and outcomes of the review.

REVIEW OF ALTERNATIVES

12.5 The current government identified the Nova Scotia Liquor Commission as a candidate for privatization, in whole or in part. It undertook to conduct a comprehensive review of alternatives to the current system, one in which a Crown agency controls all aspects of alcohol distribution and sale. In announcing the review, government set Nova Scotia apart as being the only province in Canada that does not permit any private involvement in liquor distribution, wholesale or retail.

12.6 The review was given one overriding condition. The recommendations from the study must ensure government revenues are protected or improved. A further pledge was made that government would maintain its responsibility to ensure policies and regulations are in place to control alcohol sales and distribution, and to minimize the negative societal effects of alcohol.

12.7 A working committee of eight senior government and Commission officials was tasked with the responsibility of identifying and analyzing potential business models for warehousing, selling and distributing alcohol. The committee was asked to assess the impact of each of the models on Commission employees, government finances, service, and control over the sale and distribution of alcohol.

12.8 The working committee requested government to issue a call for proposals for assistance in the evaluation of various options. The call for proposals was announced April 26 and was open for bidding until May 12. The successful firm was expected to deliver a report by the end of June.

12.9 On May 30, it was announced that PricewaterhouseCoopers, an international management consulting firm, had been selected to help examine the options for liquor sale and distribution within Nova Scotia. It was estimated that the consultants would complete their work by July 7, at a total cost of $153,000.

12.10 As further input to the work of the committee, Nova Scotians were asked for their views on possible changes to the way beer, wine and spirits are sold in Nova Scotia. A website was set up to provide information and to act as one means of collecting responses from the public. In addition, consultation was held with various stakeholder groups.

CONSULTANTS' REPORT

12.11 Upon completion of their analysis of alternative business options, PricewaterhouseCoopers issued a report entitled *Evaluation of Business Options with Respect to the Nova Scotia Liquor Commission*, dated September 12, 2000. In their report, the consultants indicated that they were *"expected to identify and research alternative models of service delivery and to carry out an appropriate assessment of each model considered."* They were *"not expected to recommend to the Committee or Government the preferred model."*

12.12 The executive summary and conclusion of the report are reproduced below.

EVALUATION OF BUSINESS OPTIONS WITH RESPECT TO THE NOVA SCOTIA LIQUOR COMMISSION

PRICEWATERHOUSECOOPERS
SEPTEMBER 12, 2000

EXECUTIVE SUMMARY AND CONCLUSION

1.0 Executive Summary

The following document examines the various business options and potential proceeds to the Province of Nova Scotia of alternatives to the current provincial system of alcohol distribution and sales. PricewaterhouseCoopers LLP was retained by the Province to provide support to a government Review Committee with their broad-based analysis of the likely financial and other impacts of various business options using a variety of assumptions. Because of the broad nature of this request, we examined existing and recent privatization efforts in the alcohol wholesale and retail industries in Canada and the U.S. to help us understand both the approach and associated operating characteristics used in this analysis. These various business models have been conducted through a variety of approaches, ranging from full privatization to licensing systems. As we proceeded through this process, however, the specific scenarios considered in our analysis were tailored, to the extent possible, to more closely correspond to conditions within Nova Scotia. Please note that our review of options for the beverage alcohol industry incorporates the financial implications of continued enforcement and education efforts, but does not include a more detailed analysis of these areas.

1.1 Background

The NSLC is mandated to control the possession, sale, transportation and delivery of liquor — including beer, wine and spirits — in Nova Scotia. As part of this mandate the general control, management and supervision of all government liquor stores and shops is vested with the Province.

The NSLC is currently operating in a favourable position as a result of a number of years of "cost containment" and "right sizing mode" with projected increases in volume (.88%), sales dollars (2.59%), gross margin (3.21%) and net income (3.75%) for 2000-2001 over last year.

The current government process review with objectives of focusing operations on core government policies is understood. One such direction, as indicated in the 2000-2001 budget is the Government to "get out of the retail and wholesale liquor business provided that such a move made good sense for taxpayers". This statement has prompted the formation of the Committee charged with undertaking a comprehensive review of alternatives to the current system of alcohol distribution and sales.

It is understood that regardless of the approach, the Government will maintain policy over alcohol distribution and sales, thereby minimizing the negative social impacts of alcohol consumption.

It is against this backdrop of provincial and national trends that the Province of Nova Scotia is evaluating the feasibility of alternative business models for the beverage alcohol industry.

1.2 Alternative Business Model Analysis

The analysis contained in this document assesses the impact of various business models on the cash flows to the Province under the following alternatives:

- ***Nova Scotia Liquor Commission (NSLC) Operated** - This option represents the current NSLC model, where the wholesale and retail business of beer, wine, and spirits is owned and operated by the government.*

- ***NSLC Plus Agency Stores** - This option results in the closure of stores that are below the average profitability of NSLC retail stores. These retail outlets will be replaced by agency stores (i.e., corner stores, convenience stores). In addition, agency stores will be opened in the more rural/remote areas of Nova Scotia.*

- ***"Quebec" Model** - The "Quebec" model under review would envision that spirits would continue to be sold through NSLC run retail outlets only. The opportunity to sell beer and wine will be licensed to owners of grocery stores and corner stores. This will be operated in a more open market fashion. The supplier of beer and wine will decide which distribution network (i.e., NSLC outlets or grocery/corner stores) they will sell their product through. The same product/brand cannot be sold in both NSLC and private stores.*

- ***Franchise** - The franchise model option under review would see the elimination of all 100 NSLC retail outlets and have them replaced by franchise outlets. There will be a franchise agreement that defines all aspects of the operation including duration and parameters in*

which the franchisee must operate. All products, spirits, wine and beer will be sold through these outlets.

- ***Alberta (Adapted to N.S.)*** *- The "Alberta Model" proposes that all aspects of the retail liquor operations be privatized. The privatized retail outlets are not required to be a stand-alone operation and may be operated within a grocery store, convenience store or other retail outlet. NSLC will retain its role as sole wholesaler and importer of liquor in Nova Scotia. The procurement, consolidation, shipment and ownership of all inventory will be the responsibility of the suppliers and/or agents representing the suppliers. NSLC may contract out the management and operation of the warehouse.*

- ***Monopoly*** *- The Monopoly option is one which assumes the Government will sell off ownership of the "Liquor Corporation" through an initial public offering of stock. This sale would generate initial cash flows to the Province equal to the value of the "exclusivity-right" to investors. The new owner could then grant licenses or franchise rights to retailers.*

- ***Private*** *- The Private Sector Model is envisioned as an option with both wholesale and retail fully privatized. The NSLC/Government would issue licenses to both wholesalers and retailers on an annual basis. The number of licenses would be driven by market forces.*

This analysis should only be used as a general "road map" for policy makers within the Province of Nova Scotia to determine likely financial effects of various options under different scenarios, and not to determine the "optimal" approach to changing the business model. As noted in the document, once a particular model is determined (based on public policy as well as financial considerations), the model can be optimized to determine the most likely financial results under that scenario using a variety of assumptions that may differ significantly from those used in this document. For just this reason, we have evaluated a wide range of options for consideration.

Given the need for ongoing discussion and development of options based on policy considerations, the results of this analysis form the basis of a work in progress. Additional analysis will need to be performed to develop specific operating characteristics and models that are tailored to the particulars of the Nova Scotia market. Where possible, we have adjusted the assumptions derived from the business model experiences of other provinces and states to reflect conditions in Nova Scotia. However, we have only used "broad-based" assumptions in many areas. Once a preferred approach to the business model is selected by the Province, additional analysis will need to be performed to adjust the assumptions to more closely represent Nova Scotia's demographics and commercial environment.

Conclusion

As can be seen in the attached financial summary spreadsheet, on a straight cash flow basis, the NSLC plus Agency Stores ranks as the highest return to the Government of Nova Scotia. However, it is important to note that it is both misleading and inappropriate to compare these options based solely on the cash flow results. Each of the options is based on a different set of assumptions, modelled largely on the recent experiences of other provinces and states.

After evaluating the initial wide range of business options and working with us to develop additional scenarios (all of which are presented in this document), it is our understanding that the Review

Committee will present the various alternatives to Government. Independent of whichever option is eventually selected, there are a number of system changes which can be made to respond to stakeholder concerns and improve the level of service to the citizens of Nova Scotia.

12.13 The 'financial summary spreadsheet' referred to above indicates that the option *NSLC plus Agency Stores* would yield, on a net present value basis, a ten-year cash flow of $1,053.8 million. This option involves closing 32 Commission-owned stores which are below the average profitability of Commission stores, and allowing 60 Agency Stores (e.g., convenience stores) to sell liquor products. The second highest yielding option was the current NSLC model (i.e., status quo), with a ten-year net present value of $1,035.3 million. However, as with any analysis involving future events, these projections are dependent on a number of assumptions. Factors such as anticipated discount rates, inflation, and sales growth — to name just a few — played a key role in determining the net present values noted above, and any difference between anticipated and actual rates will cause the actual financial outcomes to differ from the amounts projected, perhaps significantly.

12.14 The consultants' billings for this assignment totaled $153,000, the same amount that they bid in their proposal.

GOVERNMENT'S DECISION

12.15 On October 27, 2000 government announced a series of decisions made as a result of "*six months of extensive review, consultation and financial analysis of seven operating models.*" It announced that: "*the Nova Scotia Liquor Commission would not be sold outright, but increased private-sector involvement in the liquor business will be permitted, and the liquor commission itself will become a more service-oriented operation.*"

12.16 The following specific decisions were declared:

- Privately operated agency liquor stores will open, initially in eight communities identified as being underserved.
- Other private stores offering rare wines and more specialty products will be permitted to operate.
- New liquor stores could be operated privately or by the Liquor Commission, depending on individual business case analyses.
- The Liquor Commission will become a crown corporation, accountable to a board of directors "*drawn from a cross-section of Nova Scotians.*"
- The changes stemming from the review will not result in the closure of any existing liquor outlets at this time.
- The Commission will extend credit card use to licensees.
- The 9.3% surcharge on the sale of liquor to licensees will be cut in half.

12.17 At the time of the announcement, government released a summary report on its consultation process. Stakeholders consulted included employees, suppliers, licensees, retailers, consumer groups, business communities, police, communities and municipalities. They received 161 submissions from the public, mostly through the website set up to gather public input.

12.18 Shortly after announcing these decisions, government tabled Bill 80 in the House of Assembly entitled *Justice and Administration Reform (2000) Act*. Sections 69 to 84 change certain responsibilities under the Liquor Control Act. The Act provides the legislation needed to effect the transfer of the regulatory responsibilities of the Nova Scotia Alcohol and Gaming Authority, partly to the Minister of Environment and Labour, and partly to the Nova Scotia Utility and Review Board.

12.19 On December 8, 2000 Executive Council approved a reduction in liquor licensing fees from 9.3% to 4.1% of the gross value of liquor purchased. This represents a 56% reduction, in contrast to the 50% announced on October 27, 2000.

CONCLUDING REMARKS

12.20 Because the results of our audit of the Nova Scotia Liquor Commission are being formally reported in this Annual Report (Chapter 11), we do not expect that a significant number of our recommendations would be implemented yet. Nonetheless, the decisions made by government and the tabling of Bill 80 do address some of the issues raised in our audit of the Nova Scotia Liquor Commission. We highlight these items below.

12.21 We examined the Commission's governance structure and concluded that it could benefit from an increase in the number of governors overseeing its operations. The Liquor Control Act provides for a maximum of three Commissioners. We state in our report: "*The current size hinders the Board from accessing a broader range of knowledge and experience which additional members would bring to the Board*" (paragraph 11.19, page 188). The government's plan to make the Commission a crown corporation will likely increase the number of people on its Board.

12.22 Paragraph 11.36 of Chapter 11 describes four examples of "over-sight requirements" of the Liquor Control Act which are generally not complied with. Bill 80 repeals Section 31(1) which required the approval of all liquor purchases by the Chief Commissioner or a person authorized by the Minister.

12.23 We also report: "*The Liquor Control Act permits only stores operated by the Commission to sell liquor. This provides the Commission with the authority and power needed to control the sale and consumption of liquor in Nova Scotia. However, the conditions of the Act in this area are so stringent that it prevents the Commission from engaging in some alternative means of serving the public. Most other provinces in Canada have privately-owned 'agency stores' which purchase their liquor from a provincial liquor authority and are closely monitored and regulated by the authority*" (paragraph 11.39, page 191). The announcement of government addresses this situation. However, Bill 80 does not provide the revisions necessary to effect such changes, and we expect that there are intentions to further amend legislation in the near future to make agency stores possible.

12.24 Further, in our 2000 audit of government user fees (Chapter 3), we noted that the Nova Scotia Liquor Commission collects a levy of 9.3% on the sale of liquor to approximately 2000 licensees (e.g., beverage rooms, restaurants). The funds are remitted in full to the Nova Scotia Alcohol and Gaming Authority to help fund its responsibility for enforcing various requirements of the Liquor Control Act pertaining to the sale and use of alcoholic beverages. In that chapter we state:

> "*The liquor licence fee is set by regulation and, until recently, had not been significantly changed for a number of years. Due to the Eurig Estate court decision, the Authority obtained a legal opinion on its licence fees and prepared an analysis relating the fee revenues to operating costs. Revenues exceed program costs, but it was indicated that there may be costs incurred by other Provincial entities that can be allocated to the licensing*

program. We recommend that consideration be given to completing the analysis by tabulating any other related costs not accounted for by the Authority" (paragraph 3.108, page 48).

12.25 We also indicate in Chapter 3 that liquor licensing fees amounted to $6.9 million for the year ended March 31, 2000. If a similar amount is forecasted for future years, government's decision to reduce the charge by 56% will lower government revenues by $3.9 million.

12.26 In discussions held with Nova Scotia Liquor Commission officials, we were informed that the directive that the Commission allow the use of credit cards by licensees will cost the Commission approximately $800,000 per year in credit card fees.

13.

REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS

INTRODUCTION

13.1 The financial statements of crown corporations and agencies of the Government of Nova Scotia are in some cases audited by the Office of the Auditor General and in other cases by private sector auditors licensed under the Public Accountants Act. A list of crown corporations and agencies that prepare annual financial statements is included in Appendix II of this Report, on page 249.

13.2 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those crown corporations and agencies whose financial statements are reported on by private sector auditors. This section of our Report contains comments on our review of the results of private sector audits, as well as comments on audits performed by this Office.

13.3 The following entities did not provide us with audited financial statements and/or management letters in time for the publication of this Report.

- Sydney Steel Corporation - financial statements and management letter
- Halifax Regional School Board - management letter
- Sydney Environmental Resources Limited - financial statements and management letter

FINANCIAL STATEMENT AUDITS BY PRIVATE SECTOR AUDITORS

13.4 We reviewed the audited financial statements, and reports prepared by private sector auditors, being principally interested in whether:

- there were any qualifications of auditors' opinions on the financial statements;
- there was any indication of inadequate controls or accounting records; and
- there was timely preparation and audit of annual financial statements.

13.5 The following are the observations resulting from our review.

Reservations of Opinion

13.6 Except for the Art Gallery of Nova Scotia, none of the reports prepared by private sector auditors contained qualifications of auditors' opinions on the financial statements. As a charitable organization, the Art Gallery of Nova Scotia derives revenues from donations, special events, corporate campaigns and other sources. The completeness of this revenue is not susceptible to conclusive audit verification. This is not an unusual situation for charitable organizations.

Financial Controls and Records

13.7 In certain instances, private sector auditors reported upon weaknesses in internal control in crown corporations and agencies. Many of these are not serious enough to include in this Report. However, some observations were more significant, and are summarized below.

- The auditors of the Highway 104 Western Alignment Corporation, the auditors of the Nova Scotia Liquor Commission and the auditors of the Northern Regional Health Board all reported concerns over computer controls.

- The auditors of the Cape Breton Healthcare Complex found that there were inadequacies in the reconciliation process over vendor accounts, and bank account reconciliations were not independently approved. A deficiency in the drug inventory/general ledger interface was also identified. Also, the Complex did not have a ledger for tracking Tangible Capital Assets.

- The auditors of the Eastern Regional Health Board noted that bank reconciliations and journal entries were not reviewed by an independent person.

- The auditors of the IWK - Grace Health Centre noted significant improvement in trust fund and Foundation accounting, and made suggestions for further improvements. The auditors indicated the Centre should perform periodic reconciliations of Foundation revenue to the general ledger. Also, there was no ledger for tracking Tangible Capital Assets.

- The auditors of the Queen Elizabeth II Health Sciences Centre noted findings which could result in reduced revenue to the hospital, such as outpatients not completely registered, incomplete information on requests for private and semi-private rooms, and incorrect data regarding the number of days which a patient had occupied a bed. Also, there was no ledger for tracking Tangible Capital Assets.

- The auditors of the Annapolis Valley Regional School Board recommended that controls over school level fundraising activities be reviewed at the school level.

- The auditors of the College de l'Acadie reported that it had initiated a policy of paying its vendors electronically. However, only one password was required for funds transfer, and that was held by a staff member with incompatible functions.

- The auditors of the Nova Scotia Community College reported that certain fully amortized capital assets did not appear on the College's capital asset schedule though these assets may still be of value to the College. Also, the College had internally restricted funds of $4.7 million but plans for the use of the funds had not been developed.

- The auditors of the Trade Centre Limited reported a failure to accrue an amount for Public Service Awards.

- The auditors of the Art Gallery of Nova Scotia reported a need for additional controls over the operations of the "Gallery Shop" and that records have not been maintained for restricted donations.

FINANCIAL STATEMENT AUDITS BY OFFICE OF THE AUDITOR GENERAL

13.8 The Auditor General is responsible for the annual financial statement audit of certain crown corporations, agencies and funds. The following observations resulted from such audits conducted by the Office. For the year ended March 31, 2000, the Office contracted with private sector audit firms for the audit of six government agencies and funds. These audits were conducted under the direction of the Office, and the Auditor's Report for each set of financial statements was signed by the Auditor General of Nova Scotia.

Reservations of Opinion

13.9 As the result of an audit, an opinion is expressed on whether financial statements present fairly the financial position of the entity at its fiscal year-end and the results of its operations for the year then ended. Where there are qualifications of audit opinion or situations in which it was not possible to render an opinion, we believe it appropriate to report on the matter.

13.10 Except for the Public Trustee and the Province's consolidated financial statements, this year we did not encounter any situations that required qualifications in the Auditor's Reports on financial statements. The nature of the Public Trustee's operations makes it impossible to provide an opinion on the completeness of its trust assets. This is not an unusual situation for trust funds.

System Weaknesses

13.11 During our audits we noted situations where accounting and control systems, and procedures were deficient. Although they were not of a magnitude to require reservations of audit opinion, a number of these situations are significant enough to summarize in this Report.

13.12 *Nova Scotia Hospital* - As in prior years, we noted an instance of non-compliance with legislation. Section 30 of the *Hospitals Act* stipulates that, 30 days after having received written notice of discharge, a patient is solely responsible for his or her cost of maintenance for as long as the individual continues to stay in a hospital. In July 1995, Nova Scotia Hospital staff were directed by the Hospital's Board of Management not to issue invoices for these costs and consequently, 30 day notices were no longer issued to patients. We were informed that the vast majority of individuals who had received these notices in the past were financially incapable of paying these costs. The Department of Health gave approval for the Hospital's non-compliance with the Act. An instance of inaccuracy in the documentation of receipt of goods was also noted.

13.13 *Fisheries and Aquaculture Development Fund* - There were an increasing number of aquaculture loans in arrears.

13.14 *Nova Scotia Innovation Corporation* - Weaknesses in control over fixed assets and computer security were observed.

13.15 *Provincial Drug Distribution Program* - An inadequate system of accounting for inventory price changes may have led to errors in allocation of costs between inventory and costs of goods sold. The outdated drug credit receivable had not been assessed for collectibility.

13.16 *Public Trustee Trust Funds* - Monies received are recorded in a mail receipt book, but these entries are not reconciled to bank deposits.

13.17 *Nova Scotia Farm Loan Board* - The Board received $635,439 from the demutualization of Clarica Insurance. Part of this money was retained in the Board's insurance reserve and part was included in general revenue. The actual amounts placed in each of these two categories differed from the amounts approved by the Board of Directors. In addition, no legal or actuarial advice was obtained to support the distribution.

13.18 *Nova Scotia Housing Development Corporation* - There were problems with the timeliness, completeness and accuracy of the audit package prepared by the Financial Services Unit and Department staff. The financial statements of the Corporation do not comply with generally accepted accounting principles, and we have recommended that changes be made to achieve compliance.

13.19 *Pension Funds* - The required annual reporting to members of the Public Service Superannuation Plan and the Nova Scotia Teachers' Pension Plan was not done. It was indicated that one of the major contributors to this situation was the implementation of a new pension administration system.

Legislative and Policy Compliance Weaknesses

13.20 We noted situations where there was lack of compliance with legislation or policy. Although they were not of a nature to require a reservation of audit opinion, some are significant enough to warrant discussion in this Report.

13.21 *Nova Scotia Crop and Livestock Insurance Commission* - Insurance unit price changes were effected prior to Executive Council approval.

13.22 *Pension Funds* - Changes to the Members' Retiring Allowances Act on November 25, 1993 established the Members' Supplementary Retiring Allowances Plan. As in prior years, we recommended that there be an appropriate segregation of the accounting for and reporting of the contributions, interest, refunds and allowances associated with the supplementary plan from that of the original plan.

Timeliness of Financial Reporting

13.23 In our view, as a minimum, financial statements should be available for release within six months of year-end. Our review this year noted, in addition to the Province's consolidated financial statements, several financial statements that were not completed within this time frame:

- Sydney Environmental Resources Limited;
- Sydney Steel Corporation;
- Public Service Superannuation Fund;
- Members' Retiring Allowances Account; and
- Teachers' Pension Fund.

13.24 It should be noted that recent amendments to the Provincial Finance Act now require that financial statements for Government Business Enterprises and Government Service Organizations be submitted to the Minister of Finance before June 30 following their fiscal year end.

13.25 Delays have prevented the timely completion of audits on these entities and have significantly contributed to the delay in preparation of the Province's consolidated financial statements.

13.26 The Province's consolidated financial statements for the fiscal year ended March 31, 2000 were released on December 14, 2000. While this date is prior to the statutory deadline of December 31, 2000, we believe that it would be more appropriate for the financial statements to be released within six months of the fiscal year end.

OTHER AUDIT OBSERVATIONS

14.

ADDITIONAL APPROPRIATIONS

BACKGROUND

14.1 Every year the *Estimates*, representing the government's spending plans, are presented to the House of Assembly for review and approval. The *Estimates* are summarized in the Appropriations Act, which authorizes spending amounts (or votes) for the coming year.

14.2 The Provincial Finance Act provides Executive Council with the authority to approve adjustments to these spending plans in the form of additional appropriations. The Provincial Finance Act also permits Executive Council to approve special warrants when an expenditure, which was not provided for in the original *Estimates*, is urgently and immediately required.

14.3 Exhibit 14.1 on page 222 includes extracts from the Provincial Finance Act relating to additional appropriations and special warrants.

14.4 Section 9(2)(e) of the Provincial Finance Act requires that the *Public Accounts* include a summary listing of any additional appropriations or special warrants authorized for the fiscal year. Under Section 9A(1)(c) of the Auditor General Act, we are required to call attention to every case in which an appropriation was exceeded and every case in which a special warrant was made pursuant to the provisions of the Provincial Finance Act.

RESULTS IN BRIEF

14.5 The following are the principal results from our 2000 review of additional appropriations and special warrants:

- Additional appropriations totalling $639,204,000 are required for the fiscal year ended March 31, 2000. None of these additional appropriations had received approval prior to March 31, 2000 (i.e., before the over-expenditures had been incurred). At the date of writing this chapter in early 2001, all are still awaiting approval by Order in Council.

- There was one special warrant approved for the 1999-2000 fiscal year.

SCOPE OF REVIEW

14.6 The objective of our annual review of additional appropriations and special warrants is to determine if they were properly authorized in accordance with the provisions of the Provincial Finance Act.

PRINCIPAL FINDINGS

Additional Appropriations

14.7 In our view, incurring expenditures before the necessary additional spending authority is in place may be contrary to the Provincial Finance Act and the Expenditure Control Act. Further, the

timing of these approvals impairs the effective control of and accountability for expenditures in excess of original spending authority limits.

14.8 A detailed listing of the status of all appropriations approved by the 1999 Appropriations Act can be found on Page 58 of the Public Accounts of Nova Scotia, Volume 1 - Financial Statements for the fiscal year 1999-2000. Several of these appropriations were exceeded and the sum of $639,204,000 is required in the form of additional appropriations. As at the date of writing this chapter, the Orders in Council necessary to approve the additional appropriations have not been approved.

Special Warrants

14.9 We are required under Section 9A(1)(f) of the Auditor General Act to call attention to every case in which *"a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money."* The Provincial Finance Act allows the Executive Council to approve a special warrant, when the Legislature is not in session, which authorizes *"an expenditure which was not provided for by the Legislature"* and *"is urgently and immediately required for the public good."*

14.10 A special warrant was approved on August 19, 1999 relating to expenditures for the 1999-2000 fiscal year. This warrant was required as the Appropriations Act had not been passed for the 1999-2000 fiscal year prior to the general election. The newly-elected government felt that departments might exceed the amounts authorized by Section 27(1) of the Provincial Finance Act prior to the passage of the Appropriations Act. Section 6 of the Appropriations Act 1999 approved on November 8, 1999 by the House of Assembly specifically rescinded this special warrant and included any amounts expended pursuant to that warrant in the amounts authorized by the Appropriations Act.

CONCLUDING REMARKS

14.11 Expenditure of funds beyond the votes or appropriations approved by the House of Assembly continued to occur prior to Executive Council approval required under the Provincial Finance Act.

14.12 Current legislation and administrative practices raise questions as to the effectiveness of the House of Assembly's control over the expenditure of public funds. The practice of obtaining after-the-fact approval for additional appropriations does not necessarily constitute *effective control* and, we believe, may contravene the intent of statutory requirements in this regard.

14.13 The Department of Finance previously indicated that the determination of exact numbers is necessary to avoid seeking additional appropriations for minor amounts. If the objective is to ensure adequate controls over the spending authority are in place, forecasting should be used to determine the required additional appropriation. By using forecasting methods, the authority could be put in place prior to the incurrence of the expenditures thereby improving control over the expenditure process.

Exhibit 14.1

EXTRACTS FROM THE PROVINCIAL FINANCE ACT

Prerequisite to issue of money
13(2) *The Deputy Minister* [of Finance], *or an officer designated by him, before the issue of public money out of the Consolidated Fund, shall ensure that there is sufficient balance available in the appropriation for the specified purpose.*

Consequences of exhausted appropriation
13(3) *When an appropriation is exhausted, the Deputy Minister shall forthwith notify the department to which the appropriation was granted and the Minister, and shall not sanction any further contractual obligations or commitments to be charged to the exhausted appropriation.*

Suspension of right to commit
27(A) *The Governor in Council, upon the recommendation of the Minister, may order the suspension for such a period as the Minister deems fit of the right to commit any appropriation or part thereof except the salaries, wages and expenses of members of the public service, including the civil service, or the indemnities and expenses of the members of the House of Assembly.*

Report of insufficient appropriation
28(1) *When it appears to the Minister or principal officer having charge of a service that the sum appropriated by the Legislature for an ordinary or usual service is insufficient to meet the requirements of that service during the year for which the appropriation has been made or that the sum appropriated by the Legislature to be expended on capital account is insufficient for the service for which it was appropriated, the Minister or principal officer shall make a report of that fact to the Minister of Finance and shall in such report estimate the additional sum required to carry out the service.*

Supplementary appropriation
28(2) *Upon the receipt of such report, the Minister of Finance may make a report to the Governor in Council showing the need of additional appropriation and thereupon the Governor in Council may order that such additional sums as are deemed necessary for the said service be appropriated accordingly, provided that the additional sums appropriated to be expended on capital account shall not exceed twenty-five per cent of the amount appropriated by the Legislature for the service.*

Report of urgently required expenditure
29(1) *When it appears that an expenditure which was not provided for by the Legislature is urgently and immediately required for the public good, the head of the department concerned shall make a report of that fact to the Minister of Finance and shall in such report estimate the amount of the proposed expenditure.*

Special warrant
29(2) *Upon receipt of such report, the Minister may make a report to the Governor in Council that the said expenditure is urgently and immediately required for the public good, and that there is no legislative provision therefore, and the Governor in Council may thereupon order a special warrant to be prepared to be signed by the Lieutenant Governor for the issue of the amount estimated to be required, and may order the amount to be charged to Capital Account or to Current Account, or partly in one way and partly in the other.*

Conditions for special warrant while House in session
29(3) *A special warrant pursuant to the provisions of this Section shall not be made when the Legislature is in session unless the House of Assembly has not sat for any of the five days immediately preceding the issue of the special warrant.*

15.

CASH AND OTHER LOSSES

BACKGROUND

15.1 The Government of Nova Scotia Management Manual 200, Chapter 8 requires that departments, boards, or commissions report any instances of loss of public money or public property to the Department of Finance and to the Office of the Auditor General. Finance is responsible for establishing procedures to be followed for the reporting of any irregularities or losses.

15.2 Section 9A(1)(e) of the Auditor General Act requires that we report annually every case observed where there has been a deficiency or loss through fraud, default or mistake of any person. This chapter summarizes the losses identified by or reported to us.

RESULTS IN BRIEF

15.3 The following summarizes the principal findings from our review.

- The losses reported to us for the year ended March 31, 2000 totaled $578,187; consisting of cash losses of $46,412, property losses estimated at $750,065 and recoveries of $218,290.
- Not all departments and crown agencies comply, on a timely basis, with the loss reporting requirements of the Management Manual.

SCOPE OF REVIEW

15.4 Our objective was to review the information provided by departments and agencies, and compile a summary listing of the cash and property losses reported to us for the year ended March 31, 2000 This review did not consider the losses which resulted from write-offs of uncollectible receivables or advances approved annually by Executive Council.

15.5 We sent letters to all departments and crown agencies to confirm the completeness of the losses reported to us. We have performed no additional or specific audit procedures on the losses reported.

PRINCIPAL FINDINGS

Losses Reported

15.6 The following is a summary of the cash and property losses for the year ended March 31, 2000 identified either as a result of our confirmation request or reported to us during the year. Losses reported for property lost or damaged are determined by the entities on a historical cost, estimated market value or estimated replacement cost basis.

Departments Reporting Losses	Cash	Property	Recoveries	Total
Agriculture & Marketing	$ -	$ 14,140	$ -	$ 14,140
Business & Consumer Services	29,330	1,800	-	31,130
Community Services	60	1,150	-	1,210
Economic Development	-	6,000	-	6,000
Education	7,618	3,749	-	11,367
Environment	-	580	-	580
Health	-	200	-	200
Housing & Municipal Affairs	2,708	66,443	-	69,151
Justice	326	12,851	-	13,177
Labour	15	-	-	15
Natural Resources	74	47,466	(44,470)	3,070
Tourism & Culture	-	22,395	-	22,395
Transportation & Public Works	180	102,345	(53,627)	48,898
	40,311	279,119	(98,097)	221,333
Crown Agencies Reporting Losses				
Cape Breton Healthcare Complex	3,214	-	-	3,214
Highway 104 Western Alignment Corporation	-	94,606	(22,359)	72,247
Izaak Walton Killam Grace Health Centre	-	24,038	(10,164)	13,874
Northern Regional Health Board	-	28,874	(25,642)	3,232
Nova Scotia Community College	741	97,925	(48,544)	50,122
Nova Scotia Liquor Commission	2,146	119,970	-	122,116
Nova Scotia Legal Aid	-	1,984	(1,484)	500
Public Prosecution Service	-	4,000	-	4,000
Sydney Steel Corporation	-	95,380	(12,000)	83,380
Nova Scotia Utility & Review Board	-	4,169	-	4,169
	6,101	470,946	(120,193)	356,854
Total Reported	$ 46,412	$ 750,065	$(218,290)	$ 578,187

15.7 The above table is incomplete as not all departments and crown agencies have included values for property items which have been reported to us as lost, damaged or destroyed. For example, the Department of Justice reported that, based on information in its fixed asset inventory system, 136 items had been misplaced and there is no dollar value reported for those items. Similarly, the Department of Housing and Municipal Affairs reported one such item and the Department of Transportation and Public Works also has one such item. These are the only government entities reporting these types of losses and we believe all such entities should be required to do so.

15.8 Further, Regional School Boards reported property losses totaling $75,470 and recoveries of $28,289. They have been excluded from the above listing due to the fact that the Boards have their own insurance system.

15.9 With regards to the Nova Scotia Liquor Commission, it should be acknowledged that it is a retail organization. As such, it is subject to different risks of losses. The property losses reported for the Nova Scotia Liquor Commission represent the cost of inventory stock losses from its retail and warehouse operations. As a self-service retail organization, it is inevitable that some inventory shrinkage will occur.

Compliance with Reporting Requirements

15.10 Not all entities are complying with the requirement to report losses on a timely basis to Finance and this Office. Failure by some entities to report consistently and on a timely basis restricts Finance's ability to ensure that necessary follow-up procedures are performed to determine the reason for a loss and whether appropriate corrective action has been taken.

15.11 Recoveries with a total value of $338,125 were reported by the Department of Tourism and Culture during this fiscal period that relate to the 1997-98 fiscal period. These items represent insurance proceeds received in 1999-2000, and not included in the above listing.

15.12 As stated above, losses are to be reported to both this Office and the Department of Finance. The Department of Finance provides this Office with a summary of the losses reported to it during the year. There were differences in both the number and value of the losses reported to the Department of Finance and those reported to this Office. For example, the following departments and agencies, reporting losses to this Office, either did not report losses to the Department of Finance or reported lesser amounts:

Agriculture and Marketing
Business and Consumer Services
Education
Justice
Natural Resources

CONCLUDING REMARKS

15.13 None of the specific losses reported to us with respect to the 2000-01 fiscal year appear to be of such significance (i.e., due to the nature, circumstances or size of the losses) that they warrant further or special attention by this Office at this time. We will consider the results of the Department of Finance internal audit group's work on these reported losses as part of future reviews.

OFFICE OF THE AUDITOR GENERAL

16.

REPORT ON THE OFFICE OF THE AUDITOR GENERAL

MANDATE

16.1 The responsibilities and authorities of the Auditor General are derived from the Auditor General Act (Chapter 28, 1989) and other legislation. The Auditor General Act specifies the responsibility to examine the accounts of the Province, its various agencies and transfer payment recipients, and the requirement to report to the House of Assembly on the government's stewardship of public funds.

16.2 The Auditor General helps the House of Assembly to hold government to account by providing opinions:

- on the credibility of financial statements and other government accountability reports;
- concerning compliance with legislation, regulations, agreements, and policies;
- on the adequacy of control; and
- on the extent of due regard for economy and efficiency in the management of public funds.

16.3 The Act vests sole responsibility for removal of the Auditor General in the House of Assembly. This protection provides appropriate independence from government. Appendix I on page 246 of this Report includes extracts of the audit mandate and reporting sections of the Auditor General Act.

16.4 Some other Provincial statutes and regulations, as well as other enabling arrangements for certain entities, provide additional or more specific mandates to this Office. For the most part these relate to the performance of the annual financial statement audit function for certain crown agencies or funds. The Office's mandate with respect to the review of the annual revenue estimates is quite unique. During 1998, amendments to the Auditor General Act were passed expanding the Auditor General's mandate, most notably with regard to the audit of the *Public Accounts* commencing with the fiscal year ended March 31, 1999.

16.5 In addition to the Office's statutory mandate(s), there have been instances where audit coverage by this Office has been incorporated into policy guidelines and control standards approved by government. For example, see the extracts from internal policy and standard guidelines in Exhibit 16.5 on page 244. The Department of Finance's draft policy for debt management also includes reference to specific involvement by this Office.

16.6 While we do not take exception to general reference to the Office's work in such policy statements, we are concerned that there may be some misunderstanding about the nature, extent or timing of our coverage in such regards. As presented, it could be interpreted that this Office actively audits each of the respective areas or matters on a detailed and almost continuing basis. This may not be the case, since each year we make decisions as to which aspects of government operations and control will get specific and more detailed coverage.

MISSION, VISION, VALUES AND GOALS

16.7 During the year we initiated a strategic planning process which resulted in a restatement of the Office's mission, vision, values and goals. Exhibit 16.1 on page 235 contains our Mission, Vision and Values.

16.8 Exhibit 16.4 on page 238 provides a detailed listing of our strategic goals and planned actions which have been categorized into six areas as follows:

- Products and priorities
- Professional standards and excellence
- Communications and participation
- Independence, ethics and competence
- Management of resources
- Performance measurement and reporting

16.9 These goals will be reviewed each year and will continue to evolve. Further, we will establish mechanisms to monitor our overall performance against these goals.

CORE BUSINESS FUNCTIONS

16.10 The Office conducts audits in accordance with the Auditor General Act and reports the results to the House of Assembly. The types of audits and reports provided are described in the Office's Mandate statement. However, for purposes of a more complete description, our business function is comprised of the following elements:

- In addition to the Auditor General Act, other legislation, including the Provincial Finance Act, specifies audit responsibilities. Under each of these, our function is to provide information to the House of Assembly and the public and, where appropriate, advice to both the government and managers of government entities.
- We perform assessments from which flow the provision of assurance, advice, recommendations and analyses.
- We identify and monitor emerging issues, and research developments and initiatives in other jurisdictions related to the management, control and reporting of public funds, in order to provide advice regarding opportunities for improvement.
- We support the Public Accounts Committee by providing information through briefings and by responding to specific queries.

OUTCOME MEASURES

16.11 While outcomes can only be measured through compilation and interpretation of data from various sources, for purposes of performance monitoring, the following outcome measures, previously identified, relate to the achievement of the Office's strategic goals:

- The degree to which positive change has occurred in the management of public funds.
- The extent to which financial statements and other management representations are presented fairly, on a timely basis, and are considered useful as accountability reports.
- The extent of external recognition of the Office as an effective professional legislative audit function.
- The comparison of the costs of the Office to the costs of similar legislative and other audit organizations.

16.12 As part of our business and long-term planning process for 2000-01, we plan to review our outcome measures including the identification of appropriate performance indicators.

ORGANIZATION

16.13 As at November 2000, we had 28 staff. Subject to the availability of funds, we outsource for specialist expertise and other audit resources on selected assignments.

16.14 Public funds of the Province of Nova Scotia are collected and expended through various departments and agencies. In order to effectively plan and manage the activities of the Office, we are organized into three teams each headed by a senior manager. Staff members are periodically rotated among the teams to provide career development opportunities, technical training, and to meet operational priorities. Each of the senior managers reports to the Auditor General, participates in the overall management of Office activities, has overall responsibility for a group of departments and agencies, and is the prime focus for communications with those organizations.

16.15 It is a responsibility of each senior manager to periodically review past and intended audit coverage of assigned portfolio departments and agencies. These reviews are to be consolidated into multi-year strategic plans giving due consideration to the needs of the House of Assembly, evaluation of risk factors, and availability of resources.

16.16 Exhibit 16.3 on page237 provides summary financial information on the Office's operations. Staff costs consistently account for 85% or more of the Office's expenditures on an annual basis.

COMMITTEE OF INDEPENDENT ADVISORS

16.17 In 1994 an Independent Advisory Committee of senior members of the business and academic community was established. The terms of reference for the committee are provided in Exhibit 16.2 on page 236. Certain other legislative auditors in Canada successfully use similar advisory committee arrangements.

16.18 The creation of this group and its participation have been positive initiatives, and we appreciate the open and insightful contributions it continues to make to our efforts to plan and manage the Office's activities and outputs.

PROFESSIONAL AFFILIATIONS AND ACTIVITIES

16.19 The Office strives to remain at the leading edge of legislative and other professional audit practices, and to share knowledge and experiences within those communities. We do this through participation in relevant professional organizations, including the following:

The Canadian Council of Legislative Auditors (CCOLA)

The Canadian Institute of Chartered Accountants (CICA)

The Canadian Comprehensive Auditing Foundation

The Certified General Accountants Association

The Financial Management Institute

The Information Systems Audit and Control Association

The Institute of Chartered Accountants of Nova Scotia

The Institute of Internal Auditors

The Society of Management Accountants

16.20 The Auditor General was recently appointed to the CICA Assurance Standards Board. As well, professional staff at all levels participate as members of committees, provide input and commentary on research publications, and attend various professional conferences, seminars and meetings.

PERFORMANCE

16.21 In addition to our required and planned assignments, the Office continued to receive various general and specific matters referred to it from sources external to the Office, including government, opposition parties and the general public. Our ability to react or respond to such matters, if appropriate under our mandate, is contingent on our available resources and other priorities.

16.22 Overall, we are very pleased with our achievements in the past year, but as always, much remains to be done. The following are summary comments on the Office's activities and accomplishments over the past year.

- In this, the second year of our mandate to do so, we successfully planned and conducted the audit of the Province's consolidated financial statements.
- We continue to be the only legislative audit office in Canada to report on a government's annual revenue estimates. We fulfilled this requirement for the Budget Address on April 11, 2000. Interest in the provision of this service continues to be expressed by other jurisdictions.
- We provided the Public Accounts Committee with a number of detailed briefing sessions including six sessions focusing on specific subject matter from our 1999 Annual Report.

- During the past year we initiated strategic planning sessions which have resulted in appropriate and timely modifications to our statements of Mission, Vision, Values and Goals.

- We had our financial statement audit practices independently assessed by the Institute of Chartered Accountants of Nova Scotia's Professional Standards Review program. Our results in this regard were very favourable.

- Communications with central agencies, departments, other government agencies, professional organizations and the public have been maintained and enhanced. Outside counsel through the Independent Advisory Committee continues to be of great benefit.

- The Office continues to receive very positive communications from both the business community as well as the general public concerning the quality and impact of our reporting.

- We continued to enhance our resource availability during peak periods through contracts or other arrangements More specifically, we:

  - continued our contracts with public accounting firms to perform annual financial statement audit work on six crown entities that the Auditor General reports upon; and

  - entered into arrangements with small public accounting firms to provide for periodic staff exchanges.

- Staff development continues to be a priority, particularly in the areas of professional audit practices and information technology. During the year our staff presented a technical course on Value-for-Money auditing which was attended not only by our staff but also by internal audit staff of certain departments, as well as audit staff from other legislative audit offices.

- The use, control and audit of information technology resources are of strategic importance to the performance of the Office. We have made significant investments in recent years aimed at providing our staff with the resources, training and support needed. This will represent a continuing commitment by the Office, and we monitor the results and payback of the related investments.

- We completed our assessment and remediation of risks and exposures to the Year 2000 problem and its potential impact on our business functions and activities. We encountered no problems or interruptions as the result of the change in century.

- We developed and implemented certain enhancements to our Lotus Notes based audit suite to further improve the efficiency of certain components of our audit process.

- We implemented the Performance Management module of the Province's Integrated Management Development System. Further, we incorporated this module directly into our Lotus Notes based audit suite to provide an electronic means of managing and performing this function.

- The Office continues to receive requests for information on or demonstration of the Lotus Notes based audit suite which we implemented in order to automate our audit process and file working papers.

- In October 1999, the government established the Fiscal Management Task Force under the auspices of the Voluntary Planning Board. The Task Force was charged with the responsibility to undertake a review of the financial position of the Province of Nova Scotia and to submit recommendations on how to balance the budget, and present a framework and set of guidelines to assist in the government's review of programs. The Task Force was responsible to "*...examine the province's fiscal situation...analyze fiscal steps taken by other provinces, seek the advice of experts and draw from the wealth of knowledge to be gained from public input*". The Auditor General was appointed Special Advisor to the Task Force and both he and the Deputy Auditor General attended meetings and provided information and advice. The Task Force released its report in early 2000.

- We continued our participation with the Canadian Council of Legislative Auditors (CCOLA) in the following capacities:

  - the Auditor General of Nova Scotia is currently the Chairman of the Planning and Coordinating Committee;
  - our Office is represented on the Strategic Issues Group;
  - our Office is represented on the Information Technology Committee;
  - our Office is represented on the Human Resources Network; and
  - our Office is represented on the Performance Reporting and Audit Group.

  Further, in September 2000, we co-hosted the annual joint meetings of the CCOLA and the Canadian Conference of Public Accounts Committees (CCPAC) in Halifax. These sessions were attended by representatives of the legislative audit offices and Public Accounts Committees of all provincial and federal Canadian jurisdictions, as well as Bermuda.

  The CCOLA sessions focused on a variety of current issues and topics of interest to the legislative audit community, as well as review and approval of reports of specific committees and study groups. There was also a joint session for both CCOLA and CCPAC delegates, presented by Sir Graham Day, dealing with "Ethics and Ethical Leadership".

  The conference was a tremendous success and delegates were very impressed with Nova Scotia hospitality.

- The Office continues to progress with our occupational health and safety committee as required by statute and government policy with the full support of our senior management committee.

- Since the release of our report last year, two staff members successfully completed the Uniform Final Examinations administered by the Canadian Institute of Chartered Accountants.

- We are very pleased to note that we now have 3 staff members currently enrolled as students in programs of study leading to professional accounting designations.

PRIORITIES

16.23 Strategic and long-range planning for the Office includes, among other things, consideration of the Office's audit universe, the needs of the Legislature, areas of risk and available resources.

16.24 On the administrative side, our priorities are to continue to operate within our expenditure control plan. This will entail filling certain vacancies that arise, as a result of retirements or resignations, with more junior professional staff. In addition, we continue to look for opportunities to work jointly or collaborate with other audit functions on a cost-effective and appropriate basis to serve the House of Assembly.

16.25 As a result of a planning initiative in Fall 2000, the goals of the Office have been defined in more detail than previously presented. Our specific goals and planned actions are itemized in Exhibit 16.4 on page 238.

Exhibit 16.1

OFFICE OF THE AUDITOR GENERAL
MISSION, VISION AND VALUES

Our Mission **-** To serve the House of Assembly and the people of Nova Scotia by providing independent assurance and advice to enhance government accountability and performance.

Our Vision - Demonstrating and being recognized for independence, professional excellence, and credibility and making a significant contribution in support of accountable and well performing government.

Our Values - In pursuing our mission, we value our clients, our staff, and our professionalism.

- We strive to maximize our productivity, and provide quality service to the House of Assembly, its members, and other clients. We do this with initiative and commitment, employing state of the art knowledge, skills, and abilities. We seek to be progressive, encouraging leadership, intelligent risk-taking, and high standards of reliability.

- We treat people with fairness and equality, communicating openly, honestly, and respectfully. We place great importance in career development, training, professional fulfilment, diversity and quality of work life. We work together as a partnership, support staff and professionals, recognizing each person's unique contribution.

- We work to the highest standards of our profession, maintaining a relationship with the House of Assembly and the government that is confidential, independent, objective, and professional. We endeavor to be creative while remaining practical, economical, and efficient. We share our knowledge, values, ideas, and experiences within the Office, the government, and our profession.

Exhibit 16.2

AUDITOR GENERAL OF NOVA SCOTIA
COMMITTEE OF INDEPENDENT ADVISORS

TERMS OF REFERENCE

OBJECTIVE

The role of the committee is to advise the Auditor General on issues facing the Office and to assist in promoting effective management of public funds and improved accountability.

More specifically the Committee will consider and advise on:

1. Initiatives designed to strengthen the professional competence, adherence to professional standards and overall effectiveness of the Office.

2. Technical and managerial issues arising from government-wide and departmental audits.

3. Accountability issues with particular regard to information published by the Government on financial and program performance.

4. Strategic and long-term operational objectives of the Office.

MEMBERSHIP

1. The Committee consists of no fewer than six and no more than eight senior members of the business and academic community selected for their knowledge and experience in the fields of management, finance, accounting and auditing in both the public and private sectors.

2. Members serve on a voluntary basis at the invitation of the Auditor General for a term of one year and are eligible for reappointment.

3. The Committee is chaired by the Auditor General with secretarial support provided by his Office.

MEETINGS

1. Meetings are held at least semi-annually at the call of the chair.

2. An agenda and briefing material are prepared by the Auditor General and circulated in advance of the meeting. Additional briefings are provided by staff of the Office.

Exhibit 16.3

OFFICE OF THE AUDITOR GENERAL
SUMMARY FINANCIAL INFORMATION

	1999-2000 Actual	1999-2000 Estimate	2000-2001 Estimate
Salaries & Benefits	$ 1,516,382	$ 1,604,300	$ 1,682,300
Operating Costs			
- Travel	53,058	44,000	57,000
- Professional & special services	111,247	189,000	90,000
- Supplies & services	65,206	66,000	60,700
- Other (including IT related costs)	147,388	108,700	100,000
	376,899	407,700	307,700
Gross Expenditure	1,893,281	2,012,000	1,990,000
Less: Fees & other charges	(171,740)	(175,000)	(140,000)
Net Expenditures	$ 1,721,541	$ 1,837,000	$ 1,850,000

(1) During 1999-2000, the Technology & Science Secretariat acquired information technology resources for the Office at a cost of $40,000, which are not included above.

(2) The costs associated with the Office's leased premises are not included above. Those costs - approximately $65,300 for 1999-2000 - are reported by the Department of Transportation and Public Works.

OFFICE OF THE AUDITOR GENERAL
GOALS AND PLANNED ACTIONS

Goals	Action Steps	Priority	Timeframe
Products and Priorities			
A-1 To focus our efforts on assurance products of greatest relevance and use to members of the House of Assembly and that are consistent with the Auditor General's mandate.	• Confirm our range of assurance products, based on a review of mandate, client needs and developments in other jurisdictions.	High	2001
	• Review Office role in auditing of performance information and establish Office direction.	High	2001
A-2 To support the enhancement of performance reporting by government and to work towards provision of assurance on such reports.	• Establish target %'s for Office effort devoted to various types of audit products.	High	2001
A-3 To establish audit priorities for the next three years.	• Establish criteria for selecting audit priorities.	High	2001
	• Prepare a formal, long-range audit plan, including an update of audit universe.	High	2001
A-4 To reduce financial statement audit hours and reallocate to issues of more importance to the House of Assembly.	• Review financial statement audit portfolio with a view towards determining which audits should be performed by the private sector, which should be contracted on an agency basis, and which we should continue to do.	Medium	2001
Professional Standards and Excellence			
B-1 To ensure that all our audit work meets/exceeds relevant professional standards.	• Establish a quality control process for all of our assurance work.	Low	2001
	• Implement process for quality review of all broad scope audits.	Medium	2001
B-2 To ensure that all staff have knowledge of current professional pronouncements.	• Establish and implement an effective knowledge transfer process.	Medium	2001
	• Establish and implement a process to formally update staff annually re: changes in professional pronouncements.	Medium	2001
	• Establish and implement process for continuous review and update of audit methodology.	Medium	2001
B-3 To ensure that the best professional practices, within our means, are applied to each audit.	• Reactivate advisory committees for audits, and review procedures to determine whether changes should be made.	High	2001

Exhibit 16.4

Goals	Action Steps	Priority	Timeframe
	• Establish criteria for determining when specialist knowledge is required, and implement.	Medium	2001
	• Ensure that we give staff constructive feedback at the end of each audit, in order to reinforce good performance and identify areas for improvement.	High	2001
	• Implement procedure for monitoring "lessons learned" at the end of each audit.	High	2001
	• Expand our monitoring of best practices in other jurisdictions.	Medium	2001
Communications and Participation			
C-1 To ensure our communications with the House/PAC, Executive Council and the public are effective.	• Review our report format and determine whether improvement is required.	Low	2002-03
	• Establish a strategy/protocols for media working relationships.	Low	2002-03
C-2 To ensure an effective working relationship with members of the PAC and Executive Council.	• Establish a strategy/protocols for PAC working relationships and briefings.	Low	2002-03
	• Establish a strategy/protocols for working relationship with members of Executive Council.	Low	2002-03
	• Decide scope and perform a client satisfaction survey.	High	2001
	• Establish position on desirability of more frequent reporting to House.	Low	2002-03
	• Determine whether we should seek professional communications advice.	Low	2002-03
C-3 To ensure effective communications with government.	• Determine government satisfaction with our communication.	Medium	2001
	• Establish plan for increased networking with senior government officials.	High	2001
C-4 To ensure that the government understands our role, reporting relationships, and contribution to a well-performing government.	• Review our strategy/protocols for clearing and release of draft reports.	Low	2002-03
	• Confirm adequacy of current communication practices for/during specific assignments.	Low	2001

Goals	Action Steps	Priority	Timeframe
	• Determine strategy for communicating our role, reporting relationships, and contribution to a well-performing government.	Medium	2001
C-5 To ensure that we participate actively in professional bodies, and the Office benefits from such participation.	• Encourage staff to participate actively in professional bodies.	Low	Ongoing
	• Respond positively to requests for involvement with various professional bodies whenever appropriate.	Low	Ongoing
Independence, Ethics and Competence			
D-1 To maintain the independence and objectivity, in fact and appearance, of all professional staff.	• Clarify expectations of staff as to what constitutes independence and objectivity.	Low	2001
	• Annually update the conflict of interest statements signed by all professional staff.	High	2001
D-2 To maintain the highest ethical standards, in fact and appearance.	• Ensure staff are clear on which ethical standards they are expected to comply with, and that they have easy access to them.	High	2001
	• Establish a process to familiarize staff with ICANS rules of professional conduct and the code of conduct for the Provincial Public Service.	High	2001
D-3 To ensure the Office hires, develops and retains staff that have the knowledge, skills, abilities and experience necessary to perform quality work.	• Prepare a human resource plan which addresses staff hiring, compensation and succession/career-path.	High	2001
	• Identify our training and development needs, and develop a strategy to meet them.	High	2001
	• Develop a database of training plans and "actuals" for individual staff members.	Low	2001
	• Seek opportunities for expanding the experience of staff (team shuffles, special projects, secondments).	High	Ongoing
	• Monitor and achieve maximum benefit from the Office's new performance management system.	Medium	Ongoing

Exhibit 16.4 cont'd

Goals	Action Steps	Priority	Timeframe
	• Review the need for and use of specialists, and develop a plan for meeting our needs.	Medium	2001
D-4 To maintain a safe and healthy work environment.	• Maximize the benefits of the Office's OH&S Committee and practices.	Low	Ongoing
	• Determine the level of job satisfaction and gather/consider suggestions for improvement.	Medium	2001
D-5 To create an environment that supports a high level of motivation and work-satisfaction in all staff.	• Increase participation and foster a sense of ownership and pride by staff.	Medium	Ongoing
	• Increase positive-feedback, and celebrate successes.	High	Ongoing
	• Review efficacy of various non-remunerative benefits for staff.	High	2001
	• Develop a strategy for Office team building and improving the social environment.	High	2001
Management of Resources			
E-1 To ensure resources available are managed with due regard for economy and efficiency.	• Establish an Office audit plan and schedule, with an appropriate system to monitor achievements.	High	2001
E-2 To benefit through leveraging work by/with other audit functions.	• Implement appropriate project management systems and practices.	High	2001
	• Improve audit suite time and performance reporting.	Low	2001
	• Implement a weekly Senior Management Advisory, Challenge and Knowledge-Update.	High	2001
	• Identify opportunities to work with other audit functions in joint/collaborative audit assignments.	Low	Ongoing
	• Establish strategies for effective use of alternative staffing arrangements.	Low	Ongoing
E-3 To optimize resources available for significant assignments relevant to the enhancement of government accountability and performance.	• Implement an expanded and participatory process for preparing the annual budget and longer-term financial plan.	Medium	2001

Goals	Action Steps	Priority	Timeframe
E-4 To ensure practice/performance management systems are adequate/effective.	• Improve internal monthly financial reporting, including forecasting.	Medium	2001
	• Review the support functions and identify possible improvements.	Low	Ongoing
	• Increase the percentage of resources allocated to specific assignments.	High	2001
	• Review team and portfolio assignments.	Medium	2001
E-5 To enhance/optimize the use and control of information technology to support assignments and/or other activities.	• Ensure IT training requirements are integrated with Office training plan.	High	2001
	• Identify strategies for improved knowledge transfer and sharing.	Medium	2001
	• Migrate IT support functions to less senior staff to free up time of senior level staff to work on IT audit assignments.	Medium	Ongoing
	• Update our IT audit methodology and approaches, including an expanded use of CAATs.	Medium	2002-03
E-6 To ensure open exchange and sharing of information and experiences across the Office.	• Enhance communication and exchange between senior management and managers.	High	2001
	• Increase the number of staff meetings.	High	2001
	• Make more effective use of discussion databases on an Office-wide basis.	Medium	Ongoing
Performance Measurement and Reporting			
F-1 To measure and report our performance to the House and public	• Determine inputs, outputs and outcomes which we wish to report, and the related performance measures and standards.	High	2001
	• Develop template for Office performance report.	Medium	2001
	• Implement systems to gather necessary information.	High	2001
	• Complete each of the above steps, and prepare an expanded and enhanced performance report for inclusion in the 2001 Report of the Auditor General.	Medium	2001

Exhibit 16.4 cont'd

Goals	Action Steps	Priority	Timeframe
	• Prepare 10 year retrospect report for 2002 Annual Report.	Low	2002-03
F-2 Benchmark significant aspects of our operations and performance against our peers on an on-going basis.	• Determine which aspects of our operations and performance should be benchmarked either for internal monitoring or external reporting purposes.	High	2001
	• Determine potential sources of benchmarking information.	High	2001
	• Working with CCOLA and other appropriate networks, collect relevant benchmarking information from our peers.	High	2001
	• Review results of benchmarking exercises, and take appropriate action.	High	2001
	• Summarize significant benchmarking results and include in Office performance report	High	2001

Exhibit 16.5

Extract from Procurement Guidelines

Audit

All procurement activities will be subject to such audit processes as may be determined appropriate by the Auditor General or the Auditor General in consultation with the Procurement Branch. Two forms of audit may occur. A compliance audit may be conducted to determine the level of adherence with established procurement rules and policies. A quality audit may also be undertaken in conjunction with or separately from compliance audits. The quality audit will examine the process undertaken and decisions reached from a defensibility and accountability point of view. Departments experiencing unacceptable compliance or quality audits and, in the opinion of the Minister of Finance, fail to undertake suitable measures for their resolution, may have all delegated procurement authority revoked until such time as satisfactory steps have been taken.

All procurement activities will be subject to audit by departmental internal auditors and specific audits as instructed by the Procurement Branch.

Extract from Information Technology (IT) Standards

Review for Compliance:

Perform formal review of various departments' use of IT standards. Done by the Office of the Auditor General.

Audit Process and Report:

Produce formal audit report on departments' use of IT Standards. Done by the Office of the Auditor General.

Audit for Benefit and Value:

Perform audit of IT standards use in departments regarding the benefit and financial value. Done by the Office of the Auditor General.

APPENDICES

Appendix I

AUDITOR GENERAL ACT

SECTION 8

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the capital and revenue receipts;

(c) money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;

(d) money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and

(e) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

SECTION 9

(1) The Auditor General shall report annually to the House of Assembly on the financial statements of the Government that are included in the public accounts required under Sections 9 and 10 of the *Provincial Finance Act*, respecting the fiscal year then ended.

(2) The report forms part of the public accounts and shall state

(a) whether the Auditor General has received all of the information and explanations required by the Auditor General; and

(b) whether in the opinion of the Auditor General, the financial statements present fairly the financial position, results of operations and changes in financial position of the Government in accordance with the stated accounting policies of the Government and as to whether they are on a basis consistent with that of the preceding year.

(3) Where the opinion of the Auditor General required by this Section is qualified, the Auditor General shall state the reasons for the qualified opinion.

SECTION 9A

(1) The Auditor General shall report annually to the House of Assembly and may make, in addition to any special report made pursuant to this Act, not more than two additional reports in any year to the House of Assembly on the work of the Auditor General's office and shall call attention to every case in which the Auditor General has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any public money belonging to the Province;

(b) any public money was not duly accounted for and paid into the Consolidated Fund of the Province;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was not authorized or was not properly vouched or certified;

(e) there has been a deficiency or loss through fraud, default or mistake of any person;

(f) a special warrant, made pursuant to the provision of the *Provincial Finance Act*, authorized the payment of money; or

(g) money that is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency.

(2) The annual report of the Auditor General shall be laid before the House of Assembly on or before December 31st of the calendar year in which the fiscal year to which the report relates ends or, if the House is not sitting, it shall be filed with the Clerk of the House.

(3) Where the Auditor General proposes to make an additional report, the Auditor General shall send written notice to the Speaker of the House of Assembly thirty days in advance of its tabling or filing pursuant to subsection (2).

(4) Whenever a case of the type described in clause (1)(a), (b) or (e) comes to the attention of the Auditor General, the Auditor General shall forthwith report the circumstances of the case to the Minister.

(5) The Auditor General shall, as soon as practical, advise the appropriate officers or employees of an agency of Government of any significant matter discovered in an audit.

(6) Notwithstanding subsection (1), the Auditor General is not required to report to the House of Assembly on any matter that the Auditor General considers immaterial or insignificant.

SECTION 9B

(1) The Auditor General shall annually review the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates.

(2) The opinion of the Auditor General shall be tabled with the budget address.

SECTION 15

Notwithstanding any provision of this Act, the Auditor General may, and where directed by the Governor in Council or the Management Board shall, make an examination and audit of

(a) the accounts of an agency of government; or

(b) the accounts in respect of financial assistance from the government or an agency of the government of a person or institution in any way receiving financial assistance from the government or an agency of government,

where

(c) the Auditor General has been provided with the funding the Auditor General considers necessary to undertake the examination and audit; and

(d) in the opinion of the Auditor General, the examination and audit will not unduly interfere with the other duties of the Office of the Auditor General pursuant to this Act,

and the Auditor General shall perform the examination and audit and report thereon.

SECTION 17

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) deliver to the Auditor General immediately after the completion of the audit a copy of the report of findings and recommendations to management and a copy of the audited financial statements relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.

Appendix II

FINANCIAL STATEMENTS

Entity	*Classification*	*Financial Statement Auditor*
Agricultural Organizations		
Nova Scotia Crop and Livestock Insurance Commission	GSO	Auditor General
Provincial Community Pasture Board	GSO	Auditor General
Art and Cultural Organizations		
Art Gallery of Nova Scotia	GSO	Ernst & Young
Nova Scotia Arts Council	GSO	Hornby Tinkham Marshall
Nova Scotia Talent Trust	Trust	Auditor General
Public Archives of Nova Scotia	GSO	PricewaterhouseCoopers
Educational Institutions		
Annapolis Valley Regional School Board	GSO	Mackenzie, Morse and Brewster
Atlantic Provinces Special Education Authority	GPA	Auditor General
Cape Breton Victoria Regional School Board	GSO	KPMG
Chignecto-Central Regional School Board	GSO	KPMG
Collège de l'Acadie	GSO	Saxton Comeau
Conseil Scolaire Acadien Provincial	GSO	Saxton Comeau
Halifax Regional School Board	GSO	Grant Thornton
Nova Scotia Community College	GSO	Deloitte & Touche
Southwest Regional School Board	GSO	Grant Thornton
Strait Regional School Board	GSO	William B. Draper
Environmental and Natural Resource Organizations		
Canada-Nova Scotia Offshore Petroleum Board	GPA	Deloitte & Touche
Environmental Trust Fund	Trust	Auditor General
Novaco Limited	GSO	Unaudited
Nova Scotia Primary Forest Products Marketing Board	GSO	Auditor General
Nova Scotia Resources Limited	GBE	KPMG
Resource Recovery Fund Board Incorporated	GSO	Grant Thornton
Sydney Environmental Resources Limited	GSO	J.T. Nash Limited
Tidal Power Corporation	GSO	Unaudited
Gaming and Alcohol Organizations		
Atlantic Lottery Corporation Inc.	GPA	KPMG
Interprovincial Lottery Corporation	GPA	Arthur Anderson
Nova Scotia Gaming Corporation	GBE	Auditor General
Nova Scotia Gaming Foundation	Trust	Auditor General
Nova Scotia Harness Racing Incorporated	GSO	Auditor General
Nova Scotia Liquor Commission	GBE	KPMG

Entity	*Classification*	*Financial Statement Auditor*
Health Organizations		
Cape Breton Healthcare Complex	GSO	KPMG
Central Regional Health Board	GSO	Deloitte & Touche
Eastern Regional Health Board	GSO	KPMG
Insured Prescription Drug Plan Trust Fund	GSO	Auditor General
IWK-Grace Health Centre for Children, Women and Families	GSO	Grant Thornton
Northern Regional Health Board	GSO	Grant Thornton
Nova Scotia Hospital	GSO	Auditor General
Provincial Drug Distribution Program	GSO	Auditor General
Queen Elizabeth II Health Sciences Centre	GSO	Ernst & Young
Western Regional Health Board	GSO	Deloitte & Touche
Housing Authorities (Note 1)		
Annapolis Valley Housing Authority	GSO	Mackenzie, Morse and Brewster
Cape Breton Island Housing Authority	GSO	KPMG
Eastern Mainland and Cobequid Housing Authorities	GSO	Grant Thornton
Ki'Knu Housing Authority	GSO	PricewaterhouseCoopers
Metropolitan Regional Housing Authority	GSO	Grant Thornton
South Shore Housing Authority	GSO	Mackenzie, Morse and Brewster
Tri-County Housing Authority	GSO	Saxton Comeau
Justice Organizations		
Law Reform Commission	GSO	Unaudited
Nova Scotia Legal Aid Commission	GSO	Auditor General
Nova Scotia Police Commission	GSO	Grant Thornton
Public Trustee Trust Funds	Trust	Auditor General
Lending Organizations and Funds		
Fisheries and Aquaculture Development Fund	GSO	Auditor General
Nova Scotia Housing Development Fund	GSO	Auditor General
Industrial Expansion Fund	GSO	Auditor General
Nova Scotia Business Development Corporation	GSO	Auditor General
Nova Scotia Farm Loan Board	GSO	Auditor General
Nova Scotia Film Development Corporation	GSO	Auditor General
Nova Scotia Government Fund	Trust	Deloitte & Touche
Nova Scotia Housing Development Corporation	GSO	Auditor General
Nova Scotia Municipal Finance Corporation	GSO	KPMG
Pension and Disability Organizations and Funds		
Members' Retiring Allowances Act Accounts	Trust	Auditor General
Nova Scotia Public Service Long Term Disability Plan Trust Fund	Trust	Lyle Tilley Davidson
Nova Scotia Teachers' Pension Fund	Trust	Auditor General
Public Service Superannuation Fund	Trust	Auditor General
Workers' Compensation Board of Nova Scotia	Trust	Deloitte & Touche
Tourism Organizations		
Check Inns Limited	GSO	Unaudited
Sherbrooke Restoration Commission	GSO	Deloitte & Touche
Upper Clements Family Theme Park Limited	GSO	Auditor General

Entity	*Classification*	*Financial Statement Auditor*
Transportation Organizations		
Halifax-Dartmouth Bridge Commission	GBE	Levy Casey Carter MacLean
Highway 104 Western Alignment Corporation	GBE	Grant Thornton
Rockingham Terminal Incorporated	GSO	Unaudited
Other		
Bedford Waterfront Development Corporation	GSO	White Burgess Langille Inman
Council of Maritime Premiers	GPA	PricewaterhouseCoopers
Nova Scotia Freedom of Information and Protection of Privacy Office	GSO	Grant Thornton
Nova Scotia Innovation Corporation	GSO	Auditor General
Nova Scotia Power Finance Corporation	GSO	Deloitte & Touche
Nova Scotia Utility and Review Board	GSO	Grant Thornton
Sydney Steel Corporation	GBE	KPMG
Trade Centre Limited	GSO	KPMG
Waterfront Development Corporation	GSO	Grant Thornton

GBE - Government Business Enterprise
GPA - Government Partnership Arrangement
GSO - Government Service Organization

Note 1 - Housing Authorities are included in the financial statements of the Province through the consolidation of the Nova Scotia Housing Development Corporation and the Nova Scotia Housing Development Fund.